VITAL LINKS

Canadian Cultural Industries

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Culture is the very essence of our national identity. Nourishing that identity are the cultural industries, whose artists are more assured than ever but whose institutions face long odds against success.

We want to shorten those odds.

PREFACE

"Culture" is a concept with many different meanings. It certainly refers to artistic and literary activity. But it also has sociological and anthropological connotations—bringing to mind the ways in which societies and groups communicate and, indeed, define themselves.

Canadian culture encompasses all these things. Ultimately, it is the substance and reflection of who we are and what we form as a people. Our landscape is part of it; our tastes, our languages, our pastimes, the way we view the world, these all enter in.

The creative activity of all Canadians, whether Francophone or Anglophone, both reposes on our culture and becomes its most active form of expression, to ourselves and to others. It draws from our collective memory, and uses the currents and events of this place, at this and other times, along with the evolution of our two linguistic communities, as its signposts.

Not all Canadian creators produce "Canadian" works, or would want to; nor do they all even create in Canada. Visual and performing arts are rooted in our human senses, beyond the call of place. Individual writers and filmmakers reach in essence for stories and insights that are universally significant. We are a very outward-looking people. It is a great strength. Being this way is an essential part of our cultural tradition.

But inextricably our culture and our life as a nation are intertwined. As the reflection of who we are, our cultural expression becomes the aggregate of our voices and creative energies. For these reasons alone, Canada's cultural development and the quality of its cultural expression are worthy of governments' attention.

Canadians are enthusiastic about the state of the arts in our country. The quality and abundance of creative work and performance have never been higher. Strength and certainty are now evident in the work of our writers, artists and performers. We celebrate their achievements as well as their commitment—a commitment, after all, to ourselves. As a society we wish to reward our artists. They need not only our interest and attention, but also material conditions within which they can engage in their work and their art. In so doing, they can offer all of us a better chance to reach our own potential as a people and as individuals.

The health of our culture and our health as a country are interdependent.

Unfortunately, healthy creative impulses, energetic accomplishment and a zestful appetite for the arts are not all we need. There is the matter of money.

While individual writers, artists and performers in the lively arts of the stage are increasingly able to reach their audiences in Canada, the financing of the arts remains as problematic as ever. Still, a judicious mixture of attention from the public and private sectors at all levels, combined with an increase in the marketing and management skills of creators themselves, give us hope for a growing measure of stability in this basic aspect of the cultural environment.

It is in the cultural industries that the financial prognosis is more clouded. These industries—film, book and magazine publishing, radio and television, and sound recording—face the particularly long odds inherent in an era of mass communications. Canadian producers not only have to confront high project costs and concomitantly high risks, but do so in an environment where imported cultural products are available at generally much lower unit costs. Growing global economic trends aggravate their competitive disadvantages, favoring an increasingly homogenized cultural product.

We wish to find ways for our cultural industries to shorten the odds. Our reasons are more cultural than industrial. These industries are the principal conveyors of Canadian culture to Canadians; they are the main investors in and developers of our cultural potential. Without a normal measure of financial predictability for such industries, our cultural development will suffer, as will our voices, our collective strength as a country and indeed the quality of our lives.

There is a warning in this. But there is no anguish. I am supremely confident in the abilities of our artists, producers,

impresarios and entrepreneurs to present to Canadian audiences a vivacious and profound tableau of Canadian creative expression. The quality will be there, provided the funds are available to foster and produce it. Subsidies alone cannot suffice, though for film and television, publishing, and sound recording, the federal government has made available new and significant amounts of money. These industries need also to be in better touch with the financing potential of their own natural market, the Canadian audience whose own interest is their raison d'être. Canadians want these industries to be healthy because of what they bring to our lives. We want our access to the cultural output of the world around us to be unimpeded. But we want and need a choice which includes our own output, our stories, and our views. This is more than a matter of creative accomplishment. It is also a function of economic viability.

In examining our cultural industries and the structures that determine their strength and stability, this paper explains the link between creative and economic performance. The subject matter of these pages is the background information essential to the efforts of Canadian governments and private citizens in one of our noblest causes—the strengthening of our country's creative and expressive potential. Success in this endeavor will strengthen the quality of national and individual life in this country, and thereby, our potential for contributing to the rest of the world.

Flora MacDonald

Flora MacDonald.

Minister of Communications

Culture is more than "art." It is the magazines we read, the records we listen to, the television we watch. Canadians are avid consumers of cultural products. Unfortunately, we produce too little of our own.

But things are improving.

CULTURE IN CANADIAN SOCIETY

1

It was a Canadian, the late Marshall McLuhan, who called the world "a global village," created by the homogenizing effects of the universal availability of new electronic technologies.[1] Since he coined that phrase, our world has shrunk further and our horizons have grown wider through new media, such as videocassettes, microchips, satellite broadcasting and computer software. The evolution of technology and the proliferation of common products have had a contradictory effect: the world is dominated by fewer and fewer images, but the audience for these images is growing.

As a more universal and technologically driven culture emerges, so does its counterpoint: people seek to nurture and sustain their historical distinctiveness. A world reflected in only one set of mirrors is a world impoverished and incapable of responding to its own contradictions.

Culture is a complex whole. It includes the knowledge, beliefs, art, morals, laws, customs and all other capabilities and habits acquired by the members of a particular society. Like other fundamental concepts, culture can only be understood by a familiarity with the realities it summarizes. It may be difficult to define American, French or Canadian culture, but the artistic products of those cultures, their books and films for example, can readily reflect and inform the cultures of which they are products.

The vigor of a culture determines the quality and quantity of the art it produces, but it is in turn determined by the liveliness of the exchange of ideas, images, interpretations and experience among those who share that culture with the world. The exchange may be transitory or enduring, superficial or profound, thought-provoking or simply entertaining, conducted through books, magazines, music, dance, films, paintings, plays, television programs and a myriad of other ways. In the modern age, the principal instruments for the exchange are the cultural industries. Through them a people produce and disseminate the books, magazines, films, records and other products that shape and reflect them as a society.

Canadians are avid consumers of cultural products. We are, for example, the second-highest per capita purchasers of records and tapes in the world (after the Dutch). We are also among the world's great filmgoers. We think of ourselves as being particularly sports-loving: but in 1985 more Canadians attended professional theatre, dance, and musical performances than they did professional sports events.

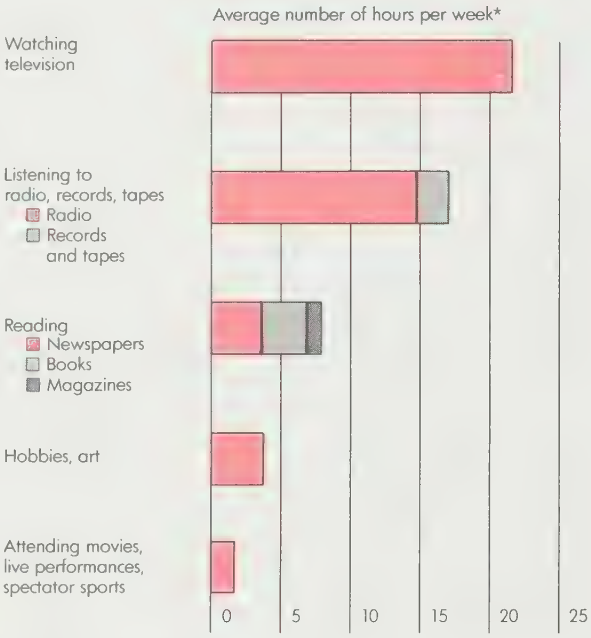
Most of the off-stage cultural fare that Canadians consume comes from somewhere else. Seventy-six percent of books sold in Canada are imported, 97 percent of theatrical screen time goes to imported films, 89 percent of earnings in the sound-recording industry accrues to 12 foreign-controlled firms that principally market imported popular music, and, despite decades of effort to regulate broadcasting, over 90 percent of dramatic television presentations are non-Canadian in origin.

Our bookstores, newsstands, record shops, cinemas and television screens testify to Canada's position as one of the greatest importers of cultural products in the world. We enjoy our access to other cultures. However, we repeatedly ask ourselves whether there should not be a more normal balance between Canadian perspectives and those from elsewhere.

The concern is not with the ease of access to the products of other cultures. It is rather with the difficulty of access to our own products, a difficulty that is primarily a function of the economics of the cultural industries, which place the cheaper, mass-marketed, imported products at such a distinct advantage. The effects are economic, to be sure, but our concerns are cultural—the need to sustain for Canadians an adequate choice. More than 35 years ago, the Royal Commission on National Development in the Arts, Letters and Sciences described the basic danger: the disproportionate volume of every kind of foreign, principally American, product flowing into Canada made it difficult for our own products to be seen and heard.[2]

Progress has unquestionably been made since then. There were hardly any Canadian books, records or films

1.1 Time spent on cultural activities, 1981



*All times are approximate

around in 1950 and, for that matter, virtually no professional performing arts companies. In the three decades since, a steady build-up of creative organizations has taken place, and, on a per capita basis, Canada is now comparable to that of other developed countries.

However, these achievements are fragile. The basic point is that the fundamental structural dilemma affecting Canada's cultural industries has worsened, in part because of a rapidly changing external environment. In consequence, as contemporary British observer Anthony Smith has noted, "No country in the world probably is more committed than Canada to the practice of free flow in its culture and no country is more completely its victim."[3]

This is true for all of Canada. However, because of their awareness of their minority position in the country and on the continent, Canadian Francophones, particularly in Quebec, have been more sensitive to the need to develop the tools necessary to sustain their distinct cultural identity.

The Government of Canada has taken its responsibilities seriously as well. In the last 35 years, it has developed a wide array of support mechanisms for Canadian culture, building on its earlier creation of the Canadian Broadcasting Corporation, still the principal cultural instrument in the country; the National Film Board; and the national museums and archival institutions. Through the Canada Council, it provides grants to artists and cultural organizations and aims at improving their material and occupational status. It stimulates investment in cultural products through the tax system and such financing vehicles as Telefilm Canada. It helps Canadian magazines attract the advertising revenue necessary to sustain them, and encourages their easy dissemination to a far-flung readership. And in broadcasting, it requires Canadian control of the broadcasting system and promotes levels of Canadian content on television and radio both by regulation and by financing instruments and incentives.

It will remain vital for the Canadian government to continue to aid artists, maintain heritage institutions and operate such a variety of cultural systems of support and regulation. A case in point is the new copyright legislation that the Government is now in the process of developing. This legislation is designed to further protect and reward creators in light of technological changes that have occurred since the *Copyright Act* was adopted in 1924.

At issue is whether these measures are adequate to the situation we face today. For they do not generally deal with certain structural characteristics of the industries themselves. Unless these characteristics are effectively addressed, particularly in the context of rapid international change, the techniques of subsidy and regulation will only be partly effective.

Basically, the problems are related to the very high costs of production and marketing in the cultural industries. In other industries, these costs would be recouped to a much greater degree by sales revenue. Although it has always been difficult for Canadians to finance the production of cultural goods from the revenues of their own, rather small, domestic market—the market most naturally interested in their products and the one that must provide a basis for their success—it is now becoming almost impossible, because of the advantages accruing to foreign competitors operating in Canada. This is not meant to criticize non-Canadians operating here in the cultural industries, for many contribute to Canadian cultural life, but to draw attention to the structural and financial impediments to a normal market for Canadian cultural goods. The global trends in investment and marketing described in the next chapter threaten to exacerbate these problems.

As giant companies merge and technology expands, markets become global in scope and national identities blur. This is especially true in America's entertainment industries and is thus especially threatening to Canada's cultural industries.

GLOBAL TRENDS IN THE CULTURAL INDUSTRIES

2

Canadians are keen internationalists, a vocation implying a breadth and depth of choice. By contrast, globalization is a process leading to centralization of decision making and a narrowing of choice.

By treating all countries as segments of a single market, and ignoring superficial regional and national differences, corporations can standardize their products and marketing techniques, achieving enormous global economies of scale. For those involved in the cultural industries, huge production runs result in much lower costs per unit—per book published, per recording, per film or television program released. This allows the company to underprice its competition while still reaping high profits.

Language is not necessarily a barrier to the growing homogenization of cultural products and tastes. English is the language common to most of the films, television programs and sound recordings that are commercially successful internationally. And cultures sharing that language with the richest and most prolific exporter—the United States—are subjected to the most powerful homogenizing pressures.

Corporate gigantism in the cultural industries

Globalization of the cultural industries is being hastened by successive waves of major corporate takeovers and mergers, particularly in the United States, but also in Europe, because of the established potential of cultural products as corporate profit and growth centres.

Drawn by this potential, manufacturing and resource conglomerates have accelerated their investments in the cultural sector. For example, the Coca-Cola Co. owns Columbia Pictures and Tri-Star Pictures; Gulf + Western Industries Inc. owns Paramount Studios, book-publishing companies Simon and Schuster and Prentice-Hall, and Famous Players Ltd., one of the major cinema chains in Canada.

Within the cultural industries themselves, numerous corporations have moved energetically to expand and diversify their holdings. These include CBS (broadcasting, records and magazines), MCA-Universal-Putman (records, films and books), McGraw-Hill (books, electronic information services, business magazines and broadcasting), RCA-NBC-General Electric (broadcasting and records) and Warner Communications (films, records and books), to name only a few.

One recent study notes that at least 10 large American corporations have holdings in six or more media industries, including publishing, sound recording, film production, movie theatres, network broadcasting and cable television; 8 corporations have holdings in five media, 13 in four, and 38 in three.[4] Such conglomerates can offset revenue declines in one area with gains in another and benefit from economies of scope.

Takeover gigantism occurs within single industries as well. In publishing, for example, some major companies increasingly dominate the landscape. Bertelsman, which has now purchased Doubleday as well as Bantam, is the world's largest publisher, but is being challenged by Gulf + Western's Simon and Schuster. These concentrations of ownership are not inherently negative on straight business grounds. Several Canadian companies— Torstar, Maclean-Hunter —are expanding this way. The concern is with the impact of such international takeovers on the development and availability of cultural products in Canada. The growth and expansion of Canadian-owned companies in the cultural industries does not give rise to the same kind of Canadian concern because there is a demonstrable link between ownership and cultural performance in Canada.

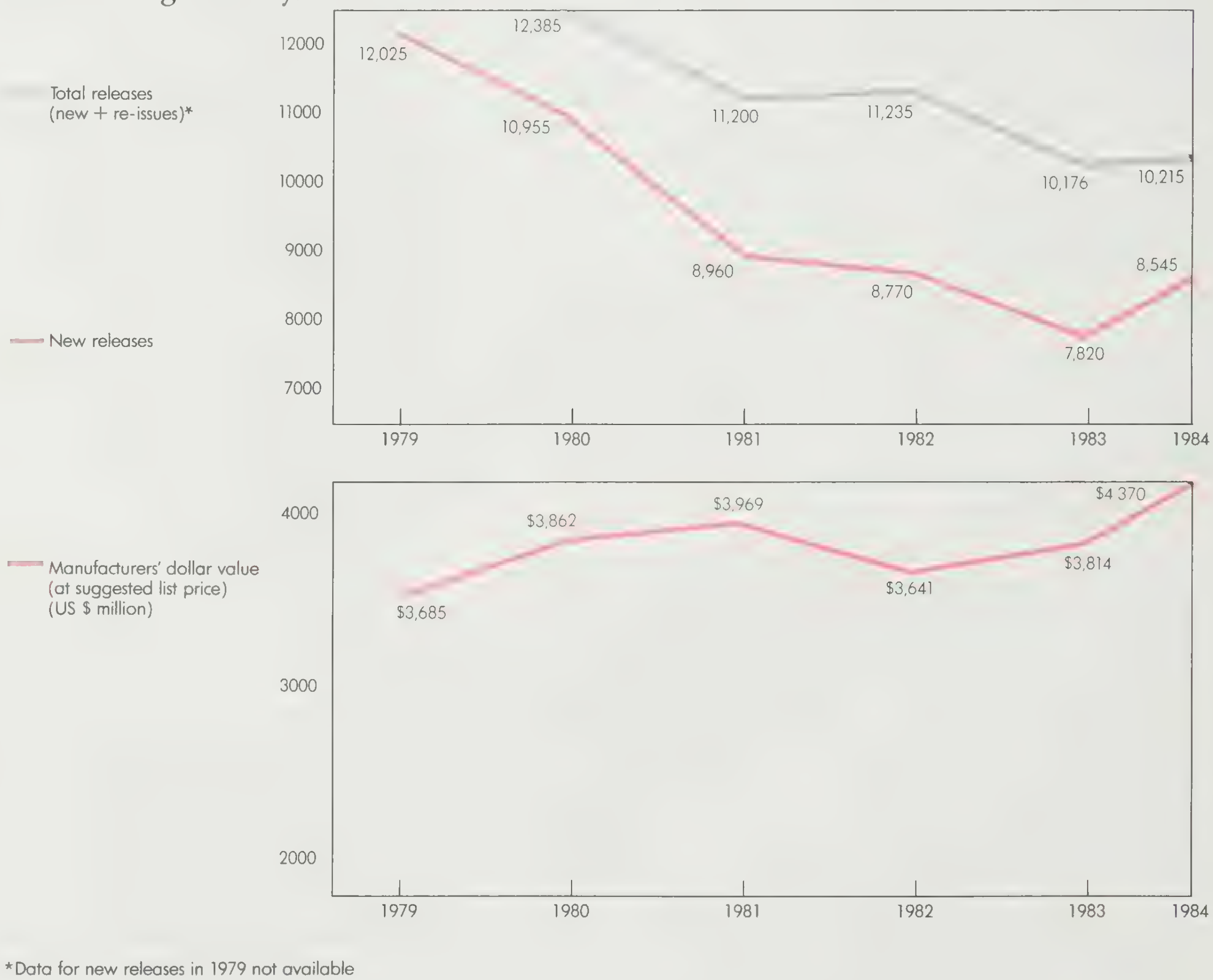
The end effect of the merger and acquisition phenomenon is the reinforcement of what one American media critic has termed "an endless chain of power and influence."[5] Conglomerates in the cultural industries have access to immense financial resources. Many of them are multinational enterprises deploying the same strategies—and marketing the same products—both at home and abroad.

Risk-reduction techniques

Corporate and financial strength alone are not enough to guarantee success in the cultural marketplace. These industries are uniquely high risk. They rely on popular taste, which is volatile and unpredictable and will accept or reject not just the initial production runs, as for manufactured products, but the whole investment. The cost of that investment is high; the average production cost of a Hollywood film is now over $14 million, with marketing costs being about half as much again. In film and sound recording in particular, the great majority of releases—estimated at eight out of ten—can be expected to lose money, at least in the American market. These losses must be recouped by profits on other commercially successful releases and by sales in other countries. Because the costs of failure are so high, corporations in these industries are driven by the need to counteract and reduce risk.

Corporate concentration is itself a technique of risk reduction. Concentration can proceed vertically, by securing control over the means of both production and distribution (for example, film studios owning film distributors and/or exhibitors), which ensures availability of markets in advance of product release, or horizontally, by securing control over direct competitors (particularly evident in publishing).

2.1 Blockbuster phenomenon:
Number of releases and dollar value of shipments in U.S. recording industry.



Horizontal consolidation increases potential market share and permits cross-subsidization of risks in uncertain areas, such as fiction, by more predictable revenues in areas (such as textbook publishing) that are technology- and capital-intensive.

In product development, risk is reduced by accepting mass consumer appeal as the arbiter of taste. By definition, the benchmarks of mainstream taste and appeal are those of the biggest market—even the American products outside this stream are generally not attractive to the major corporations in that nation's film, sound-recording and book-publishing industries, which are the dominant North American cultural industries.

Bigger budgets, especially for marketing, are expended on a narrower and more commercial line of mainstream products. For example, in the American recording industry, new releases dropped from 12,025 in 1979 to only 8,545 in 1984, though aggregate sales revenues were considerably higher. It is estimated, moreover, that of the roughly 2,000 recordings to be released in the United States this year, only about 200, selected on the basis of early market tests, will be strenuously marketed. Similar sorts of trends apply to publishing and film.

Mirroring the cross-ownership ties within the cultural industries, the traditional distinctions between types of cultural products become increasingly blurred. Media converge as television programs are made into books, and books are assessed for their film or broadcasting potential.

A "blockbuster" product may live through many marketing phases: hardcover book, magazine excerpt, paperback edition, book-club selection, comic book, television special or series, cinematic release, pay-television release, network television release, videocassette, or soundtrack recording. Although few products achieve all these incarnations, some realize several. Other blockbuster products generate substantial ancillary profits through spin-off merchandise such as toys and T-shirts.

The point here is that the merchandising hype for these products, which also reaches the Canadian public, and the ability to retail these same products in Canada at lower per-unit costs place Canadian products at a distinct disadvantage. Of concern is not their inadaptability to mainstream North American blockbuster status, but their ability to compete even in Canada's own market, where they absolutely **must** succeed.

The chainstore environment

Retail chains and the shopping-mall environment add to the effect of risk-reduction strategies. Powerful instruments in the marketing of books, videocassettes and records, chainstores, which emphasize high-volume purchasing and quick turnover of inventory, favor the promotion of bestsellers at the expense of breadth and depth of selection. Inventories shrink. The "shelf-life" of products becomes shorter. Canadian products become marginalized, because they are comparatively under-promoted. They become underfinanced and quality of production can suffer, contributing to a further deterioration in the cycle.

Implications for Canada

These global trends have some clearly dark implications for Canada unless Canadian producers can more effectively reach their own natural audience in this country.

The risk-reduction strategies of multinationals affect the availability of all products in Canada's cultural marketplace. Not only do these strategies result in fewer product releases, marketed more heavily across Canada with the reinforcement of the chainstore environment, but the ubiquitous blockbusters—based essentially on "mainstream" American taste—also become the norm, dictating the criteria for mass acceptance in terms of content, packaging and distribution.

These strategies, combined with the fact that Canada is not treated as a separate and distinct market for cultural products, work to the disadvantage of Canadian creators and producers. The result is the potential marginalization of Canadian culture within Canada itself.

The Canadian marketplace is abnormal for two reasons : the vast majority of books, films and records available here are produced elsewhere. And the revenues generated by their distribution largely flow out of Canada to finance production industries elsewhere.

THE CONDITION OF THE CANADIAN CULTURAL INDUSTRIES

3

Increasingly, American mass culture is being seen by Canadians as "normal" culture, and Canadian mass culture as "abnormal" culture. Canadian artists have moved to the fringe of their own country. Thus, in the video rental shop I frequent, the films of Claude Jutra are classifed as "foreign" films. And in the record store, "Canadian" records have a special bin, along with Ukrainian dances and Flamenco guitarists.[6]

John Gray

Judging by the amounts of time and money Canadians devote to culture, the country should be able to sustain more viable cultural industries. It is a paradox that although Canadian consumption of cultural products represents a substantial market, Canadian cultural industries generally exist in a state of financial weakness and vulnerability, unable to become self-financing from market revenues.

An abnormal market

In larger and more intact national markets, the revenues generated by the distribution of a book, film or recording finance the artistic and productive efforts behind subsequent books, films and records.

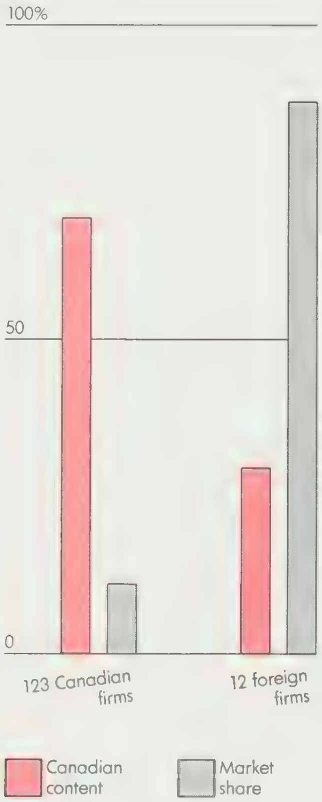
Of course, in most other developed countries, a much larger share of the cultural products available in the marketplace are created and distributed by the people who live there. In the United States, for example, 99 percent of screen time is devoted to American films.

It is in these two respects that the Canadian marketplace is abnormal in comparison to that of other major industrialized countries. First, the vast majority of books, films and records available to Canadians are produced elsewhere. Second and more ominous, the revenues from the distribution of those goods accrue not to Canadians, who are inclined to help finance the development of Canadian talent and Canadian industries, but instead largely flow out of Canada to finance production industries elsewhere. For the Canadian market is normal in this one aspect: Canadian companies, despite the structural impediments they face, finance the overwhelming majority of Canadian cultural products.

- **In sound recording:** Canadian firms produced 72 percent of the Canadian-content recordings in 1984. Twelve foreign-controlled firms produced only 28 percent of Canadian-content albums, yet accounted for 89 percent of total revenues derived from the sale of recordings in Canada.
- **In book publishing:** Canadian firms publish about 78 percent of the Canadian-authored titles. Foreign subsidiaries publish only about 22 percent of those titles, yet earned 61 percent of total industry revenues in 1984.
- **In film:** Canadian firms distributed 95 percent of the Canadian films in 1983. Although foreign-controlled firms —chiefly the Hollywood "majors"—generated about 90 percent of the nearly $1 billion in revenues from Canada's film and video market, revenues from the distribution of Canadian films accounted for less than 1 percent of all the revenues earned in Canada by the foreign-controlled firms.

Because it is extremely difficult to develop, produce and distribute Canadian products at a profit, given the smallness of the main linguistic markets and the competition from imported products, Canadian companies do not usually become self-financing by dealing in Canadian products alone. They depend on their ability to benefit, as distributing agents, from the sales of imported cultural goods. However, most cultural products imported into Canada are distributed not by Canadian companies, but by subsidiaries of the foreign production or distribution company.

3.1 Production of Canadian content versus market share—Sound recordings, 1984



Recognizing the unique characteristics of the Canadian marketplace, governments in Canada have invested substantially in subsidizing the production of Canadian cultural products. But the economic health of Canada's cultural industries depends on their supplementing such assistance by participating in the distribution of imported products, which generates the bulk of revenues from the domestic market. This would enable them to make the necessary investments in a wider range of Canadian cultural products.

Foreign subsidiaries compete with formidable advantages against Canadian producers. They market imported goods that have often already recovered their costs in their home markets, and benefit further from the massive spillover into Canada of their advertising and promotion in those markets. It is invariably less expensive to market imported products in Canada than to undertake the development, production and marketing of Canadian books, films or records.

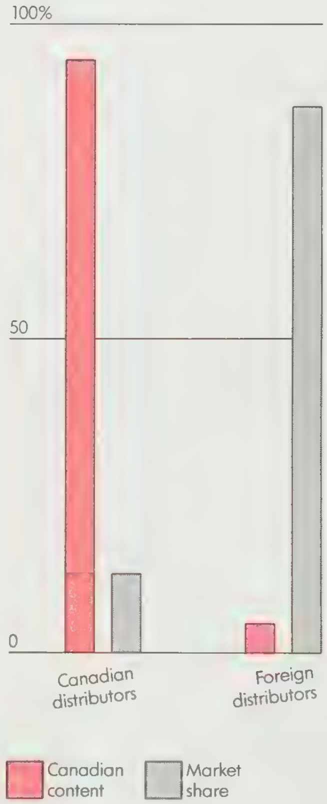
There are two fundamental conditions inherent in the present situation:

- Canadian-controlled firms are essential to the production and distribution of Canadian cultural goods;
- those firms have extremely limited access to the most lucrative parts of their own markets, which deprives them of the market revenues necessary for reinvestment in production.

Obstacles to Canadian cultural producers

The lack of financial viability in Canada's cultural industries stems from a set of interrelated structural, financing and marketing problems that are to some extent inevitable, given the size of the Canadian market and its proximity to that of the United States. These include the demography of the Canadian population. The Anglophone market of some 19 million is widely dispersed across a vast geographical area, and shares a common border and language with the United States. The positive characteristics of Canada's Francophone market—geographical compactness, a separate

3.2 Production of Canadian content versus market share—Films (theatrical market), 1983



language and physical remoteness from the major importing nation, France—are offset by its size (six million), which renders economies of scale even more difficult than in English-speaking Canada, and by the fact that language is decreasingly a barrier to the penetration of the Francophone market.

It is true that the problems are aggravated by the strategies of some multinational conglomerates operating in and out of Canada, but these companies, operating in their self-interest, cannot be expected to volunteer redress for structural conditions in Canada.

An important exception to this general condition is the broadcasting industry. Broadcasting enterprises in Canada must be 80 percent Canadian-owned, and entry to the industry is regulated. Significantly, Canadian private broadcasters are profitable partly because revenues derived from carrying foreign programming can be used to finance Canadian programming.

Obstacles to financing: Cut off from much of the revenue in their own national market, Canadian publishing, sound-recording and film companies often find it difficult to obtain external capital financing as well. Without significant investment and loan capital, Canadian firms are generally not well positioned to adapt to the long-term challenges of technology and new kinds of consumer demand.

Traditionally, financial institutions have been reluctant to provide Canadian cultural producers with the financing they need to operate successfully. Many bankers cite what they perceive as the unacceptably high degree of risk involved in lending money to many businesses in these industries. This assessment is based on the perception of an absence of significant profits, the difficulty of gauging a product's potential success and the often shortened popularity of most books, films and records, conditions that characterize these businesses in virtually all countries, but particularly in Canada.

Many Canadian companies in the cultural industries have high ratios of debt to equity, making them appear doubtful loan risks. Subsidiaries of multinational firms, on the other hand, with larger equity bases and greater financial backing, are more likely to be considered good credit risks.

The same perceptions that discourage commercial lenders can also deter capital investment in the cultural industries. Investors seeking a high return are unlikely to be drawn to the Canadian-owned cultural industries other than broadcasting, except where tax advantages (like the capital cost allowance for film and video) make the investment more attractive.

Bankers and investors in Canada are now becoming more disposed at least to look with interest at specifically promising activities in the cultural industries. However, some of the basic characteristics of the market need improvement before external financing becomes available on a more normal scale.

Obstacles to marketing: The structural and financing obstacles just described are mutually reinforcing and result in a third order of difficulty: Canadian firms have inadequate budgets to promote their products.

This is a major problem in an era when marketing is central to commercial success. Multinational film, recording and publishing companies often spend at least as much of their budgets on marketing as on production.

But effective marketing requires adequate financing. Without such financing, Canadian companies have difficulty in competing for the attention of their national audience.

The impact on Canadians

The trends described above, and their impact on Canada's abnormal market, have been intensifying. As they do so, even augmented government support may not offset the market losses suffered by Canadian creators and cultural industries.

If left unchecked, the impact would be industrial, since Canadian-owned firms, at pains to compete in their own market, could succumb to a chronic state of under-financing. The impact would be economic, because the sector's capacity for job and revenue creation would be seriously undermined. This would affect not only the cultural industries, but many related businesses and professions providing services to these industries. Entrepreneurs would be squeezed out of the market, and the Canadian products available, which are not abundant, would be replaced by imports, or, at most, marginalized outside the Canadian mainstream.

But principally the impact would be culturally destructive. Canadians would have diminished access to an already scarce resource—Canadian cultural products that reflect their own experiences. The right of Canadians to choose freely what they wish to read, see and hear would be limited by a narrowing choice. Decisions about what is to be made available would increasingly be taken outside Canada.

It is in response to these trends that the Government of Canada has recently set in motion a wide-ranging set of interrelated measures to strengthen Canadian cultural industries including enhanced industrial and cultural support as well as a new film policy and specific provisions in the *Investment Canada Act.* These responses are examined in detail in the following chapters.

Canadian publishers can hardly survive on such a small domestic market unless foreign publishers let them distribute more foreign titles or bid for the rights to publish them, or unless they can expand into the lucrative educational publishing market.

BOOK PUBLISHING

4

Until the Industrial Revolution, printers manufactured books and booksellers made them available to the public. Publishers then emerged as entrepreneurs able to develop and promote book projects. Today publishers occupy the crucial position between authors—whose works they assess, edit, package, promote, and supply to bookstores, libraries and schools—and readers.

A Canadian guide to the process of publishing is subtitled *The Creative Business*—a term that describes all the cultural industries.[7] Canadians benefit immeasurably from both the creative and business skills of their publishing community. Successful Canadian publishers are essential to the existence of Canadian books, which in turn are fundamental to our cultural development and public discourse.

An abundance of Canadian literary talent has emerged in recent years, and Canadian authors have become recognized for their excellence both at home and abroad. Virtually all these authors were professionally nurtured, and originally presented to the public, by Canadian-owned publishers.

Paralleling this maturing process in Canadian literature, the domestic publishing industry expanded dramatically in the 1960s and '70s. A number of larger Canadian educational and even trade publishers are doing well; however, despite the contribution of public support programs, many Canadian-owned book publishers remain chronically underfinanced: their cultural achievements have not been rewarded with economic success.

The Canadian market for books

In 1984, the total book market in Canada had an estimated wholesale value of $1.3 billion. Of this amount, $1.10 billion (83 percent) was accounted for by sales of books in English and $213 million (17 percent) by sales of books in French.

Ours is a substantial market; however, titles published in Canada have a less important share of the market than titles published abroad:

- *titles published in Canada* (over 80 percent written by Canadian authors) account for $323.7 million, or 25 percent of the market;
- *imported titles distributed in Canada,* by either Canadian-owned companies or Canadian subsidiaries of foreign multinationals (publishers as well as exclusive agents), account for $393 million, or 28 percent of the market.

There is a third category:

- *imported titles sold directly from abroad* to Canadian purchasers, which account for $625 million, or 47 percent of the market.

That Canadian-authored books may account for at least a fifth of the books purchased in Canada is not always a cause for lament; indeed, at times in 1985 the bestsellers list for non-fiction works was composed virtually entirely of Canadian-authored books. The disturbing fact is that Canadian-based publishers, Canadian-owned and foreign, in fact account for barely half of the Canadian market. The other half is composed of direct imports, some of which are thought to circumvent publishers or agents who hold exclusive distribution rights for Canada.

The Canadian government has never taken issue with the openness of the Canadian market to imports: it is part and parcel of the internationalism, of the intellectual affinities of Canadians. The challenge is to ensure that Canadian-owned publishers reap their fair share of the lucrative import business, either by distributing more imported titles or by bidding for more of the rights to publish them.

Within the portion of revenues earned by the Canadian-based industry, both Canadian- and foreign-owned, the foreign-owned subsidiaries fare far better financially than Canadian-owned publishers. Of the 201 publishing companies reporting to Statistics Canada, only 29 are subsidiaries of foreign publishers. Yet those subsidiary companies control 58 percent of all book sales (both Canadian and imported titles) reported by publishers in Canada; the figure rises to 65 percent for publishers in English.

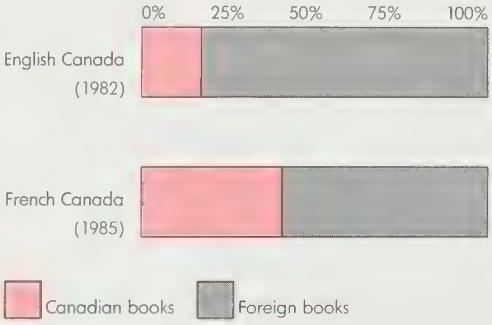
For analytical purposes, Canada's book market can also be divided according to types of books published. "Trade" books are titles published for the general consumer market, including fiction and poetry, history and biography, social and political topics, children's books, practical guides and so on. Textbooks are published for the educational market at the elementary, high-school or post-secondary levels. Scholarly and reference works represent an important third category. On this basis, Statistics Canada breaks down the book market (1984) as follows:

	(in millions)
Trade books	$584.8
Textbooks	400.5
Scholarly and reference	334.9
Other	21.8
Total	$1,342.0

In the educational market, foreign-owned subsidiaries account for 67 percent of book sales in the country (73 percent of books in English). And in the case of imported titles distributed here (that is, excluding direct imports from foreign sources), the subsidiaries account for 71 percent of the market.

These two categories are extremely important. Textbook sales and the distribution of imported titles represent the most stable and lucrative areas of publishing, as opposed to fiction and general-interest publishing, where it is extremely hard to turn a profit.

4.1 Books read by adults in Canada



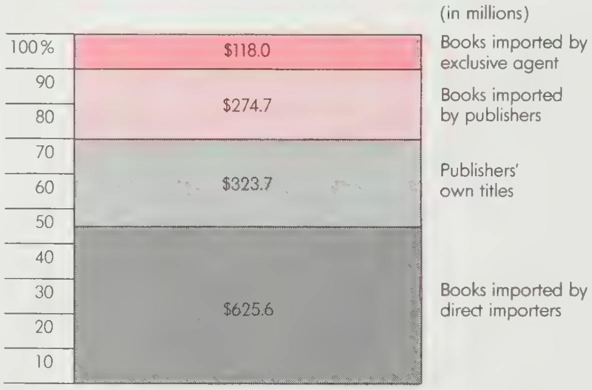
These two categories can provide the means of acquiring the financing for new investment—in textbook publishing and the rights for new imported titles, to be sure, but also potentially in Canadian-authored trade books.

Thus, the single greatest problem of most Canadian-owned book publishers is the difficulty of financing their operations from the revenues of the Canadian market itself, because the most lucrative areas of the book market—import distribution and **educational publishing**—are dominated by foreign-controlled publishers and distributors. These firms are able, in the case of trade publishing, to benefit from selling well-publicized foreign products at little cost in new investment; and in the case of educational publishing, to benefit from financial and other economies of scale that provide them with major competitive advantages over Canadian firms.

The sustained disadvantage of so many Canadian-controlled publishers has direct implications for Canada's literary and cultural development because domestically owned publishers originate an estimated 78 percent of all Canadian-authored titles.

Foreign domination is now a less important issue in Quebec, where only 4 out of 65 Quebec-based publishing companies are under foreign control. Successive governments in Quebec took decisive action on the issue in the

4.2 Canadian domestic book market—Sales estimates, 1984



1970s. Also, the French language itself provides something of a shield against the plethora of American cultural products, while the distance between Quebec and France, combined with policy measures taken by the Quebec government, work in favor of indigenous publishers. Imported titles account for 67 percent of the Canadian market for books in French, as opposed to nearly 78 percent in English. However, Quebec publishers have recently expressed a concern that heavily discounted imported titles from France are undermining the Quebec market for Canadian publishers.

Of far greater concern in Quebec is the problem of market size. UNESCO estimates that a population of

10 million is the minimum required to support a viable indigenous publishing industry. The economies of scale necessary for economic self-sufficiency are difficult to achieve in Canada's Francophone market of six million, and measures of public support, as well as energetic cultivation of export possibilities, will continue to be necessary to guarantee the health of Quebec publishing, at least in the trade sector.

Diversity of book publishers: At its most basic level, book publishing is a low-cost and relatively easy profession to enter. Enormous variations exist in size, location and orientation. Although 79 percent of Canadian-owned companies are based in Ontario and Quebec, many important firms, often specializing in books with a distinctive regional flavor, are located in the other provinces. Over the last ten years, publishing outside of Ontario and Quebec has grown considerably. For example, ten years ago Hurtig Books was the only publisher in Alberta. Today, there are 25 Alberta publishing companies of different sizes publishing some 90 titles each year, with 618 titles listed and with revenues of over $7 million. The emergence and viability of regional publishing is very important to cultural life across Canada.

Indeed, it is widely acknowledged that a healthy representation of publishers in all size categories is an essential ingredient in the balance and the variety of a country's book production. The Government of Canada's foreign investment policy, described further on, is considered by some publishers to have done much to maintain such a variety of publishing houses in Canada, in the face of strong international trends towards concentration and mass-market gigantism.

Trade publishing: The great majority of Canadian-controlled publishers are active in the trade-book field, publishing chiefly or exclusively for the Canadian market. Though easy to enter, trade publishing is risky and speculative in any country because of the unpredictable factor of consumer taste. In Canada, it is especially difficult because of the massive competition from cheaper and better-publicized books imported from much larger producing countries, principally the United States, France and Great Britain, and because of the smallness of both our English-language and French-language markets. Compared with the 37,000 Canadian titles in print, over 300,000 titles are available from competing countries. Canadian-controlled publishers are therefore concentrated in the most crowded and fragmented area of the market.

Educational publishing: Publishing textbooks and other learning materials tends to be more profitable than trade publishing. The market life of successful educational books can extend over many years. But educational publishing is a more specialized and much more capital-intensive business than trade publishing, and for those reasons, more difficult to enter.

4.3 New releases of titles in the trade book segment of the domestic book market, 1977-1983

Annual Average Number of New Releases — 2,633

Provincial governments, which have jurisdictional responsibility for education, have set rigorous standards that publishers must meet before texts are approved for purchase by schools. Educational publishers must make substantial, long-term investments in research, classroom testing, design and production of products that satisfy provincial standards. Educational publishing also requires marketing expertise quite different from the marketing of trade books. Most Canadian-owned firms lack access to the level of financing required to compete in this lucrative segment of the market; as a result, subsidiaries of foreign-controlled publishers have been able to control 67 percent of educational sales in Canada.

Import distribution: Imported titles can be distributed in one of three ways: by the foreign publisher's Canadian subsidiary; by direct purchase from foreign suppliers; or by a Canadian firm to which Canadian distribution rights have been licensed. Foreign firms in both educational and trade publishing have found it more lucrative to establish Canadian subsidiaries than to sell their products through Canadian companies. Some of these subsidiaries eventually develop and publish titles by Canadian authors, often because of provincial requirements for Canadian educational materials. The multinational companies benefit from the sales revenues and market presence generated by their import lines.

Although a Canadian company's publishing program can be cross-subsidized if that company has access to revenues from import distribution (75 percent of the books sold in

Canada being imported), only 32 percent of the volume in imported books is in fact handled by Canadian-owned companies. Canadian publishers need better access to the large reservoir of market revenues that could render them more fully self-financing, and could help them in their role as catalysts for the development of new Canadian talent.

Difficulty in gaining access to this potential revenue is greatly aggravated by two related problems. One is the widespread international failure to recognize Canada as a separate national market for publishing rights. The rights to publish foreign titles in Canada are generally sold as a part of American publishing rights. Were it a more common practice to sell Canadian rights separately, Canadian publishers could more frequently bid for the chance to publish profitable foreign authors in this country.

The second problem is the common practice of "buying around," which harms all publishers in Canada regardless of ownership. Buying around refers to the practice whereby Canadian purchasers (booksellers, wholesalers as well as some publicly funded institutions such as libraries and educational institutions) acquire books directly from abroad rather than from the authorized agent in Canada. In particular, import business is lost to U.S. wholesalers with sophisticated ordering systems and rapid turnaround. This pattern of buying around not only undermines the agency business, it also has implications for the distribution of Canadian-published titles, since imported titles and indigenous titles move together in the distribution system. The Government of Canada, through the Department of Communications' Book Publishing Industry Development Program, has addressed distribution-related issues by supporting the Freight Consolidation Plan and the Canadian Telebook Agency. While some improvements have been made at the ordering and distribution levels, a great deal of work remains to be done.

Bookstores: Concentrated largely in the trade sector of the market, Canadian-controlled publishers rely heavily on retail bookstores to make their product available to consumers. Of the estimated 1,860 bookstores in Canada, 1,255 carry primarily English-language books, and 605 primarily French-language books.

At least 40 percent of this market is now occupied by chain stores, principally the Coles and W.H. Smith chains in English Canada and the Garneau chain in French Canada. As in the record and film markets, chains tend to concentrate on mainstream releases, which promise quick inventory turnover and high sales volume. It is estimated, for example, that chain bookstores in Canada carry an average of 4,000 titles, while independent bookstores may carry between 5,000 and 10,000 titles.

The concentration of retailing (and hence inventory selection) in fewer hands, combined with the tendency to reduce the number and variety of titles for sale, can limit the ability of many smaller Canadian publishers to secure outlets for their products.

In Quebec, a partial solution to this problem has been devised. A measure introduced in 1971 and modified in 1979 (Bill-51) requires provincially funded institutions in Quebec to purchase their books (excluding textbooks) from provincially accredited bookstores. To become accredited, bookstores must be wholly Quebec-owned and must devote at least 20 percent of their inventory to Quebec titles. Using its jurisdictional authority over the retail market and public libraries, the Quebec government has acted effectively to encourage the demand for Quebec books, while simultaneously reinforcing their presence in the retail market.

Financing problems: In addition to their difficulty in becoming self-financing from sales revenues, Canadian-controlled publishers have trouble obtaining adequate external financing from banks or other financial institutions. Apart from their low retained earnings, most Canadian-controlled publishers do not possess sufficient fixed assets, such as property or machinery, with which to secure loans. Lending institutions do not recognize publishers' current assets—mainly inventory and accounts receivable—as collateral.

This is a problem shared by other cultural industries. Commercial lenders are concerned that these businesses are simply too risky. Business prospects are hard to assess because the market, especially in trade publishing, is highly unpredictable; even when books have been sold to retailers, they are on consignment and can be returned to the publisher for full credit.

The undercapitalization of many publishers has prevented them from realizing their potential for growth by, for example, entering the educational field, or by developing the infrastructure that would enable them to attract import business.

The two provinces where most of Canada's book publishers are located have attempted to address the financing problem. Ontario has created a loan-guarantee and interest-subsidy program to help Ontario publishers obtain bank credit. The province has also attempted to stimulate capital investment in book publishing through its small-business development program. Quebec, through its Société de développement des industries de la culture et des communications, makes loans and loan guarantees available to entrepreneurs in the book industry. As valuable as they are,

however, these and other provincial programs, even when added to support available from the Government of Canada, do not satisfy all the financing requirements of the Canadian publishing industry.

Government measures for book publishing

In 1972, after a series of events which suggested that the Canadian-owned sector of the book-publishing industry was in danger of disappearing, the Canadian government began providing financial support to book publishers. These events included the sale of Ryerson Press and Gage Publishing to foreign interests, and the near collapse of the leading trade publisher in English Canada, McClelland and Stewart. At the same time, Quebec publishers were struggling against French publisher-distributors who were making significant inroads in an already restricted market. Accordingly, grant programs were instituted at the Canada Council (now totalling some $5 million annually) to support cultural objectives in book publishing.

The Government broadened the scope of its support when it introduced the Book Publishing Development Program in 1979, using industrial development incentives instead of the usual production subsidies. The various components of this program have provided contributions totalling up to $9.7 million annually from the Department of Communications to strengthen the economic base of Canadian book publishing. The Canada Council and the Department of Communications programs have been complementary in providing badly needed working capital to Canadian-controlled book publishers.

A more indirect form of federal support is the postal subsidy for mailing published materials in Canada. A Publishers Book Rate was introduced in 1968. Some $60 million of the total postal subsidy of $225 million is now applied to the mailing of books. Bookstores, wholesalers, direct-mail companies, book clubs and consumers, all benefit from the measure. This program is being reviewed and consolidated.

Provincial governments also make financial assistance available to book publishers, mostly in the form of publication grants. As noted, additional forms of financial assistance are provided by Ontario and Quebec. Provincial governments also have a crucial influence on book publishing through their guidelines on textbooks for elementary and high schools and through their funding of public libraries.

A positive approach for the future

In the past, government programs have performed an essential cultural role by stimulating the supply of a rich diversity of Canadian titles, and by helping many publishers weather a decade of severe inflation culminating in the 1982 recession and its after-effects. But nearly 15 years of government assistance have not substantially increased Canadian control of the domestic market or brought about enduring improvements in the financial viability of the Canadian-owned sector, though considerable gains have been made in the actual availability and indeed popularity of Canadian-authored books.

New policy approaches, and particularly industrial incentives, were required if Canada was to enjoy a culturally and economically healthy book publishing industry, on more of an across-the-board basis. Such an industry would be one in which:

- more Canadian-controlled firms of all sizes, but particularly the larger ones, become self-financing from market revenues;
- Canadian publishing of cultural importance but low commercial viability flourishes with government support.

For some publishers, the solution to the self-financing problem lies in diversification of their operations through access to the most lucrative parts of the market: educational books and import distribution. Such a strategy would depend on enhanced access for Canadian-controlled publishers to financing and industrial support programs. Improving the efficiency of the Canadian ordering and distribution system will also be a critical factor in developing financial independence. A strategy based on diversification would represent a positive response to the current global trends of corporate concentration and homogenizing of markets and products. But it is no panacea: culturally oriented subsidies are more than ever necessary for smaller, particularly regional, publishers, whose authors include many of the most authentic voices of this country.

In its February 1986 budget, the Government of Canada allocated $65 million over five years to the book-publishing sector. These funds will be directed towards both the industrial and cultural needs just described. On the industrial side, the Department of Communications has launched a new Book Publishing Industry Development Program with a budget of $8.2 million per year. This new program will focus on enhancing the viability of the Canadian-owned sector which in turn should improve the ability of Canadian publishers to finance themselves and grow within their own domestic market. With regard to the cultural dimension of publishing

policy, an amount of $4.8 million per year will be allocated to the Canada Council in 1988-1989 in order to stabilize and rationalize support for culturally significant titles that can never be fully financed by the market.

A policy adopted by the Government of Canada in 1985 provides a general framework within which the diversification strategy will be implemented. In July 1985, the Cabinet declared that the establishment or direct acquisition of book-publishing companies in Canada by foreign investors would be welcome, but only on condition that the investment is made through a joint venture with Canadian control. In the case of indirect acquisitions (where a Canadian subsidiary is purchased as part of the assets of a foreign corporation), the foreign investor would have to undertake to sell control to Canadians within two years, at fair market value. The policy creates opportunities for Canadians to improve their access to lucrative areas of the Canadian book market through joint ventures with foreign investors.

In the meantime, and in addition to programs and policies outlined above, the Government of Canada is formulating related measures to build stronger indigenous publishing capabilities, which in turn will benefit regional cultures and economies as well as national life. Such measures include strengthening the territorial integrity of the Canadian market for publishing and distribution rights, and federal-provincial co-operation to improve Canadian publishers' access to financing and to enable Canadian publishers to compete in the educational market.

In June 1985, a tariff on imported books in English was adopted in response to U.S. tariff action on Canadian wood products. The selection of books for a tariff response has been controversial, though there were hardly any other industrial sectors which provided the opportunity for an unbound tariff action. The impact of this tariff on the Canadian publishing industry was kept under close scrutiny. As a result, the federal government announced the removal of the tariff in its recent budget.

The Canadian magazine industry is generally Canadian-controlled while most cultural industries are not. This is largely because government measures have helped create a more normal market environment.

PERIODICAL PUBLISHING

5

As the O'Leary Royal Commission on Publications observed in 1961, periodicals can provide "the critical analysis, the informed discourse and dialogue which are indispensable in a sovereign society."[8] Combining information, entertainment and ideas, periodicals are both timely and enduring. They are also a proving ground for writers and a meeting ground for advertisers and their customers.

During the past 15 years, Canada's periodical industry in both official languages has thrived creatively and, to some extent, economically. The impressive number and range of consumer magazines, business publications and special-interest periodicals being published today mirror Canadian concerns and enthusiasms. All regions and most large metropolitan centres have their own magazine. A Canadian periodical exists to serve almost every economic, professional, artistic, scholarly, religious or recreational community of interest.

The relative success of the Canadian magazine industry is due in large part to specific government measures ensuring that Canadian periodicals have access to both their market for advertising and their audience itself. The most prominent measure is Bill C-58, first introduced in 1965, but the postal subsidy has also had a prominent role in the development of the industry.

Nearly 45 percent of existing Canadian periodicals were founded after 1970. And although the periodical industry has always been characterized by frequent births and deaths, there have been relatively few business failures in recent years. Since 1972, advertising revenues accruing to Canadian periodicals have risen steadily. Their overall profit margins have improved, despite competition from foreign (especially American and French) magazines.

Unlike the book publishing, and the film and sound recording industries, the Canadian-based periodical industry is generally Canadian-controlled, largely because government measures have helped create a more normal market environment for periodical publishers than exists for these other industries.

For example, reduced postal rates have ensured low-cost distribution of periodicals to subscribers; fiscal measures have encouraged Canadian companies to advertise in Canadian magazines; and support has been provided to specialized, non-commercial publications of cultural or scholarly importance.

The periodical industry: A statistical overview

A comprehensive study of the industry in 1984 estimated that 5,050 periodicals, not including daily, weekly and community newspapers, were published in Canada by some 3,400 different organizations. The industry has a total annual circulation of about one billion copies.

The periodical industry ranges from *Maclean's* and *TV Hebdo* to *Vie des Arts* and the *Journal of Rheumatology.* Great variations exist in circulation: in 1984, 110 titles had circulations of over 100,000 copies per issue, and accounted for 57 percent of all annual circulation; 2,900 titles had circulations of only 2,000 copies or fewer per issue, and accounted for 4 percent of total annual circulation.

An estimated 3,600 of the 5,050 periodicals were published in English and 1,400 in French. They are divided by category:

Business	2,150
Consumer	1,150
Artistic and literary	650
Religious	600
Scholarly and educational	500
Total	5,050

Economic impact: Total 1983 revenues of Canadian periodicals were approximately $970 million, of which advertising revenues accounted for $405 million. The balance was represented by $559 million in magazine sales and $6 million in direct grants from all levels of government.

Canadian periodical publishing and related employment activities (printing, advertising, distribution, Canada Post, etc.) account for some 24,300 jobs and half a billion dollars in wages. Of that job total, 10,000 are in publishing itself. The contribution of unpaid volunteers accounts for a further estimated 3,500 jobs.

Advertising and other revenues: The sale of advertising space plays a vital role in the magazine business. The ability of periodical publishers to become self-financing depends upon their ability to obtain revenues from domestic advertisers. This is as true in Canada as anywhere else, but in Canada periodical publishers must do so in the face of tremendous competition for advertising revenues from American magazines.

For the two largest categories, business and consumer periodicals, revenues from advertising are more significant than either single-copy newsstand sales or subscription sales. For business periodicals, advertising represented 80 percent of total revenues in 1981; for consumer magazines, 62 percent.

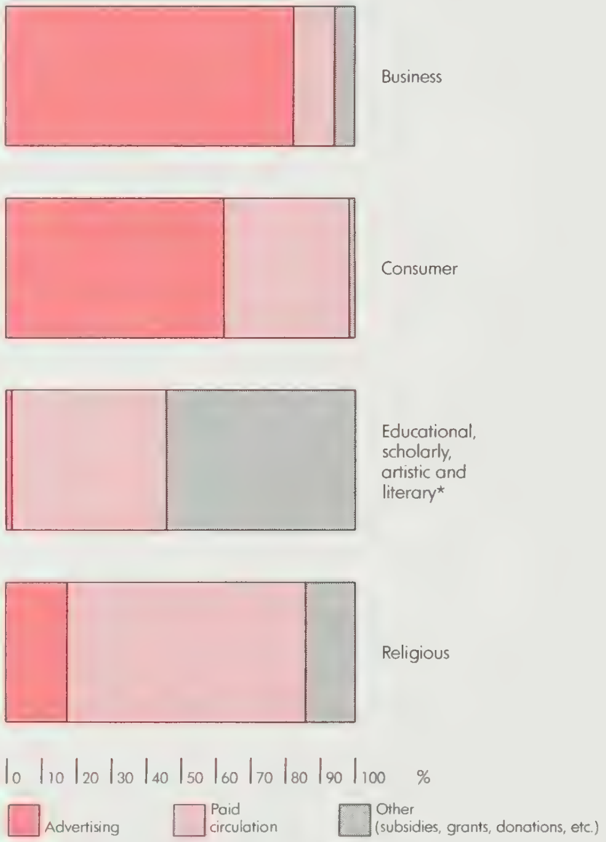
In the non-commercial categories—artistic, literary, religious, scholarly and educational—advertising is a far less important source of revenue. Artistic and literary magazines derived 56 percent of revenues from sources other than advertising or circulation—chiefly, from public and private subsidies. For scholarly journals, the comparable figure was 49 percent. Approximately 1,300 non-commercial titles are published by associations and clubs, which subsidize their publications with revenues from other activities.

Periodicals' share of net advertising revenues in Canada has grown from 5.3 percent in 1973 to 8.2 percent in 1984. But this apparent success is moderated by the fact that per capita spending on advertising in all media is lower in Canada than in any comparable developed country. Because of the extensive presence of American media in Canada, Canadian periodicals are often deprived of advertising from the Canadian branches of multinational corporations, which rely on their advertising in American magazines reaching the Canadian market as well. Although it is difficult to quantify the value of the advertising lost by Canadian publications, it is significant that Canada's national advertising media—television and magazines—receive advertising revenues at less than half the per capita rates of their American counterparts. The Canadian government has accordingly used legislation to encourage Canadian-based advertisers to use Canadian media.

Market share: Canadian titles have also increased their share of the total circulation of periodicals in Canada from 29.9 percent in 1971 to 39.4 percent in 1981.

The total circulation of Canadian periodicals in Canada was estimated at nearly one billion copies in 1981. Half of these periodicals were mailed, while 44 percent were directly distributed and 6 percent were sold on the newsstands. According to Statistics Canada, ten million American periodicals were also circulated in Canada (they were mailed or sold in newsstands).

5.1 Sources of revenue by category of periodical



*Combined data from two categories with similar breakdowns: educational and scholarly, and artistic and literary.

On the basis of subscription sales, Canadian consumer periodicals accounted for 60 percent of the market in 1981 (up from 37.4 percent in 1971). However, on the basis of newsstand sales, foreign periodicals commanded 77 percent of the market in 1981 (down from 79.6 percent in 1971). Although the newsstand market is dominated by foreign periodicals, it represents only a small portion of the overall Canadian periodical market.

Profitability: Commercial periodicals in Canada reported average profits before tax of 5 percent in 1982—a year when overall profit performance elsewhere in the economy was poor.

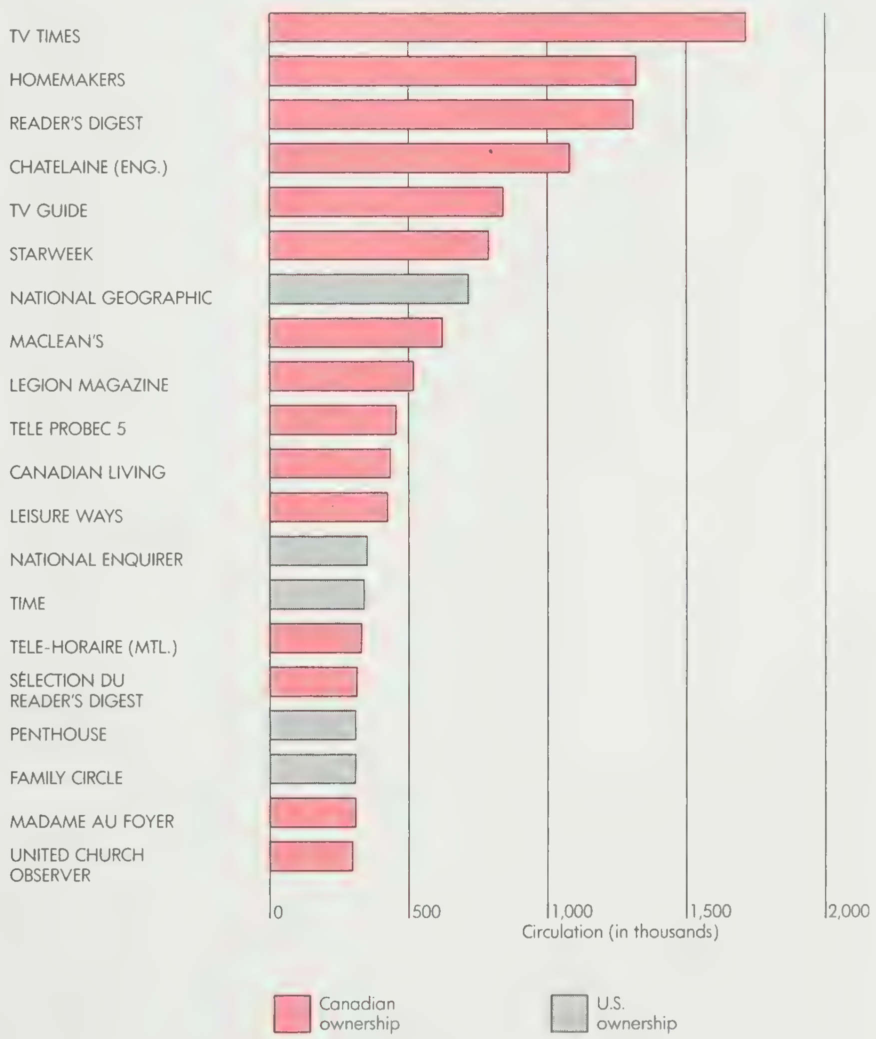
Foreign competition: In the commercial sector, Canadian periodicals must compete with more than 400 foreign magazines imported into Canada with significant price advantages. These are generally "overrun" copies of editions that have already recovered their production and development costs in their larger home market. Although they do not enjoy comparable economies of scale, Canadian periodicals must maintain comparable price levels to remain competitive.

In Quebec, for reasons of language, the market is less dominated by foreign periodicals. It is estimated that Quebec titles represent 70 percent of total magazine circulation in the province.

Exports: Most Canadian magazines serve a specific Canadian audience or function. According to estimates by Canada Post, less than 2 percent of periodicals distributed by mail are destined for foreign markets. Canada therefore runs a major trade deficit in magazines.

In 1983, the value of Canadian magazine exports was $65.8 million, while imports totalled $382.5 million. The resulting trade deficit in periodicals was $316.7 million, of which the greatest part—$298.6 million—was accounted for by trade with the United States.

5.2 Twenty largest periodicals based on circulation, 1984-1985



Record of government measures

Canadian government policies have had an important impact on structuring a fairer market environment for periodicals. A complex mix of interrelated postal, taxation, customs and subsidy measures has contributed to the growth and stability of the industry.

Postal rates: The most fundamental measure of government support dates from the inception of the Canadian postal system, when preferentially low mailing rates for newspapers, and shortly afterwards for periodicals, were established. At the time newspapers and periodicals were among the few available means of communication and education, and the Government was seeking to ensure that all Canadians enjoyed inexpensive access to print material. The preferential postal rates for periodicals are in effect older than Confederation itself.

Today, 50 percent of Canadian periodicals are circulated by post, and a complex system of mailing categories and rates has developed. The benefits of subsidized postal rates are shared among publishers, advertisers and consumers, and the postal subsidy has become deeply built into the cost-structure of the industry. Other countries have provided a similar service through their postal systems.

In the 1985-1986 fiscal year, the federal government spent $225.1 million to compensate Canada Post Corporation for the deficit incurred in providing preferential mailing rates to print materials. A portion of that amount, $55 million, was transferred to Canada Post from the cultural budget of the Department of Communications. The postal subsidy is by far the largest subsidy program offered to any cultural industry in this country.

Numerous studies have advocated a review of the program, which has remained unchanged since 1969. Given the extreme importance of the postal subsidy to the periodical industry, changes will have to take into account the economic and cultural situation of the industry.

Federal sales tax exemption: Like newspapers and books, periodicals—non-Canadian as well as Canadian—are exempted from the 11 percent federal sales tax. This constitutes another important way to encourage the dissemination of print materials. This indirect method of stimulating demand for periodicals by helping to reduce their price is valued at approximately $90 million annually.

Income Tax Act: Canadian companies may deduct from taxable income their costs of advertising in Canadian periodicals, newspapers or broadcasting outlets, but not their advertising costs in foreign media aimed at the Canadian market. Introduced in 1965 under Section 19 of the *Income Tax Act* and amended in 1976, this legislation has been commonly known as Bill C-58. Its intent is to encourage advertisers to use Canadian media to reach the Canadian public. By implication, the measure also discourages foreign ownership in Canadian periodical and newspaper publishing. To be defined as Canadian, a publication must have 75 percent Canadian ownership and 80 percent of its material must originate in Canada. The Canadian periodical industry attributes a great deal of its success in improving market share and economic stability to the effects of this legislation.

Customs tariff: Non-Canadian periodicals containing more than 5 percent of advertising aimed at specifically Canadian audiences are prohibited from entry into Canada. Religious, literary and scholarly publications are exempted from this tariff measure. Complementary to Bill C-58, this measure is intended to keep Canadian advertising dollars in Canadian media. Without the tariff, the function of C-58 would be undermined.

Direct grants: Most periodicals in the non-commercial sector face formidable obstacles in making themselves known and available to readers, and in realizing their potential level of circulation. Many are produced by volunteers or underpaid staff and writers. Yet this economically fragile sector functions as a research-and-development arm for many disciplines, publishing advanced creative work by Canadian writers and scholars.

Publishers in this sector frequently rely for survival on a subsidy of one kind or another. For artistic, literary and scholarly titles in particular, federal funding, supplemented in some instances by provincial grants, is indispensable.

Some $4.5 million is awarded in direct grants to periodicals through three agencies of the Government of Canada. The Canada Council spends some $2 million assisting about 85 artistic, literary and children's periodicals; the Social Sciences and Humanities Research Council awards the same amount to about 115 scholarly journals; and the Natural Sciences and Engineering Research Council grants approximately $0.5 million to 37 scientific publications. These funding programs sustain a network of culturally significant periodicals that could not become self-financing on a market basis, because of their highly specialized nature.

A positive approach for the future

Although Canadian periodical publishing is generally healthy, both culturally and economically, the industry will continue to require supportive government policies to sustain that state of health. As the result of the fairer market climate for periodicals created during the past 15 years, the Canadian industry has been able to increase steadily its share of both the reader and advertising markets.

The most important current issue is the government's review of the postal subsidy program, which benefits publishers, advertisers and retailers, and of course, Canadian readers. Its modification must take into account cultural, industrial and social objectives: preserving the accessibility of all Canadians at an affordable price to periodicals, newspapers, and books and maintaining favorable conditions for the development of Canada's periodical and book-publishing industry.

Canadian feature films represent only 3 percent of screen time in Canada. Yet those films are growing in number and excellence, many with government assistance. What needs to be improved now is the method of distribution.

MOVIES

6

Canadians love movies. Over 100 million theatre tickets are sold in Canada every year. And even more money is now spent to watch films on videocassette than in theatres. The total market for film and video in Canada is worth well over a billion dollars annually, if revenues from feature-film sales to television are included.

Yet Canadian audiences have had only brief and fitful opportunities to see Canadian films.

From being the sixth-largest export market for American films in 1963, Canada has in recent years been the first. Other countries where American films are popular have taken care to ensure that their own films are also produced, distributed and screened. Australian films usually account for over 20 percent of all films viewed in Australia. British films normally represent 26 percent of the British market, Italian films 44 percent of the Italian market and French films 48 percent of the French market. But only 3 to 4 percent of screen time in Canadian movie theatres is devoted to Canadian films.

It is important to emphasize the fact that this proportion has stayed relatively constant since the late 1970s, regardless of the number or quality of the films produced in the Canadian film industry. Without a new film policy, this unacceptable situation will not change—nor will the structure of the industry and its resultant domination by foreign producers and distributors.

This situation could be easily understood if creative and technical resources did not exist in Canadian cinema; but this is not the case—they exist in abundance. Canada now possesses at least 40 experienced film crews and a production capacity exceeding 75 feature films a year. Creatively, the talent is here—or working in the United States.

Yet, despite the size of the market and the emergence of a critical mass of creative and technical capabilities, Canadian films occupy a marginal position even in their home market.

Understanding that Canada cannot simply abandon its participation in this major art and communications form, Canadian governments have made renewed efforts to compensate for investment shortfalls by subsidizing production. In the last two years, particular efforts have been made to finance, through Telefilm Canada, movies of clear cultural merit in Canadian values. There have been several recent successes, such as *The Decline of the American Empire,* including excellent films developed and financed with provincial authorities, such as *Pouvoir intime* and *Loyalties.* It is hoped that these films will have a chance to recover their costs from the market. However, such successes have been rare. Unless structural anomalies in the market are also remedied, films by Canadian producers will have great difficulty in reaching their potential audience, and the cycle of dependence upon government will be perpetuated.

Elements of the industry

The film industry consists of three main elements: producers, distributors and exhibitors.

Producers assemble, in various ways, the money, creative talent and technical resources necessary to make films and get them to market. Distributors "wholesale" the producers' output to exhibitors, videocassette retailers, television broadcasters, cineclubs and libraries. Exhibitors operate the movie theatres.

Despite the dramatic rise in the home video market, the theatrical market still drives the industry. Successful videos are generally those that have first been successful in the theatres. And theatrical success depends on effective distribution.

Distributors perform the "gateway" function between producers and exhibitors, and hence between films and audiences. Early in their development, the major Hollywood production studios established their own distribution arms, in order to secure greater control over their films' release in major markets. Today, it is these distribution arms which drive the film business.

A structural survey of the industry

A capital-intensive, high-risk business: The film business is characterized by large investments and a high degree of financial risk. The risk factor in the United States is illustrated by a Hollywood truism: that one feature in ten will be an immediate success; three or four will recover their costs eventually; and the rest will lose money. It is not an easy business to enter. The average production cost of a Hollywood major studio feature in 1984 was $US 14.3 million; and $US 5 million for an independently produced feature. Canadian features generally cost between $1 million and $4 million.

Risk-reduction strategies: With such large investments at stake, major corporate players in the American industry resort to risk-reduction strategies. The most basic of these has been the creation of large, vertically integrated production and distribution companies that can spread their risks over many film projects with guaranteed distribution.

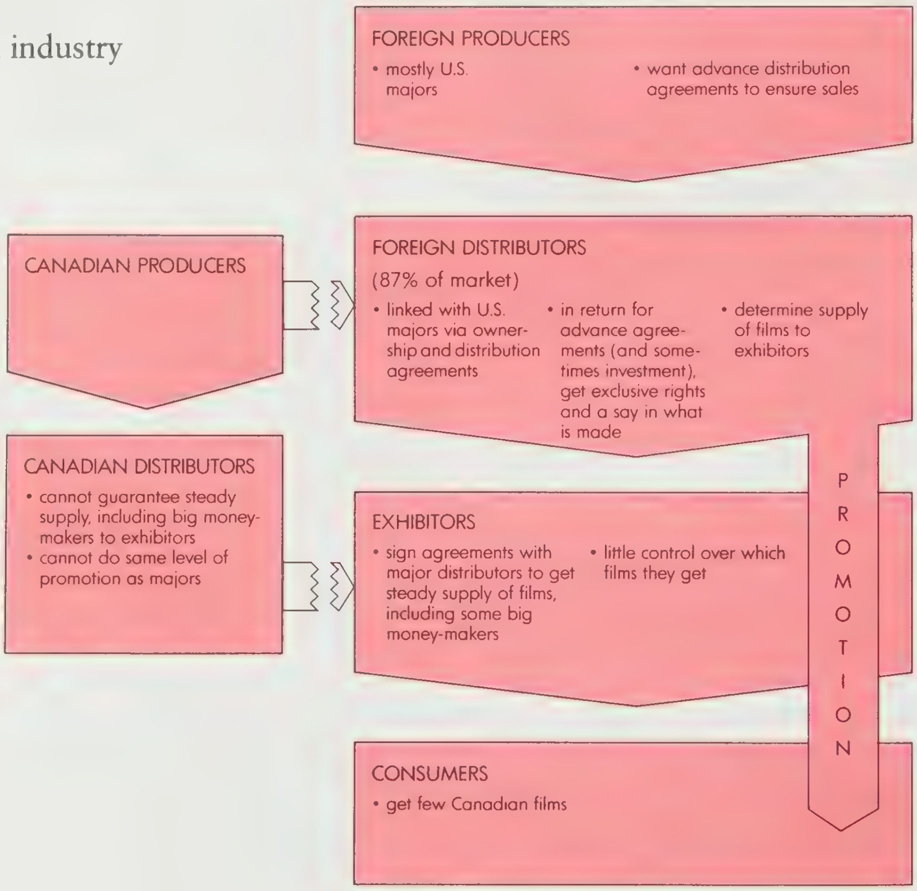
The contracts made by producers, distributors and exhibitors aim to reduce risks for all parties by obtaining the most secure possible access to the most lucrative products and markets. For producers, the primary risk-reduction strategies are seeking properties with the potential for universal appeal, and securing a distribution arrangement in advance of production. For exhibitors, the principal risk-reduction strategy is to secure a steady supply of product from distributors so as to obtain at least a proportion of the 10 to 15 blockbusters that earn a third of total cinema revenues every year.

Distributors play the pivotal role in the industry. Distributors not only feed markets, but finance production by reinvesting their profits in new films. The rule is "whoever controls distribution controls the cinema."

Foreign distributors in Canada

The American film giants have used the same strategies to control the distribution process in Canada as in the United States. Canada has been considered to be integrated into the American film market since the 1920s, to the great disadvantage of Canadian distributors who are ready and able

6.1 Structure of film industry



to buy separate Canadian rights to successful overseas films, as well as American ones. This has a subsequent negative effect on the development and financing of a national cinema in Canada.

The major studios—Columbia, Disney, MGM-United Artists, Orion, Cannon, Paramount, Twentieth Century Fox, Universal and Warner Brothers—are intent on maximizing the worldwide profits from their films. They have shown scant interest in reinvesting their Canadian profits in Canadian productions. Many American films are shot in Canada, because of the currency savings in particular, but these are films made for the American market with all signs of Canada rendered invisible. The admissions paid by Canadian filmgoers have helped to finance decades of American film production but have contributed almost nothing to creating an authentically Canadian industry. In 1984, an estimated 90 percent of the revenue from theatrical and video markets was earned by American films, and a large portion of it flowed out of the country to replenish the cycle of American film and video production. The market, as it has developed in Canada, is generally not accessible to Canadian films.

In the late 1920s, the Famous Players theatre chain, the exhibition arm of Paramount Pictures, moved into Canada armed with exclusive franchises for the output of all the Hollywood majors. Equal competition from Canadian-owned distributors and exhibitors became a thing of the past. The arrival of the British Odeon chain in Canada in the 1940s altered this arrangement only by dividing the majors' output between two chains—a situation that still exists, in a different form, today.

The majors were barred from owning American movie theatres by the "Consent Decree" issued by the U.S. Supreme Court in 1948, on the grounds that integration of distribution and exhibition is in restraint of trade. In Canada, however, the majors have remained free to operate in this manner, which is considered illegal in their own country.

There are still only two primary Canadian theatre chains, Famous Players and Cineplex-Odeon. The two chains are in a deeply competitive struggle and play out their commercial rivalry over selection and marketing strategies for American blockbusters, which they obtain through more or less exclusive arrangements from the majors. Cineplex-Odeon is principally Canadian-owned, and has been more likely to show Canadian films. However, for competitive reasons, the best dates, locations and marketing efforts have been reserved for the American films from the major suppliers, although some recent films, such as *The Decline of the American Empire*, are receiving a fair run.

6.2 Distribution of Canadian feature films, 1981-1984

The main American films are distributed by American distributors in Canada. **Yet 95 percent of Canadian films are distributed by Canadian-owned distributors.** Canadian distributors cannot survive, much less thrive, on the revenues from Canadian films alone. They depend on revenues derived from distributing independently produced foreign products. However, if the majors continue to buy what are called "North American" distribution rights with those for the United States, the Canadian distributors are basically shut out of their own film market. This has severe financing implications for Canadian film production.

In a healthy industry, the profits from film distribution contribute significantly to financing film production, which is why the major Hollywood studios operate their own distribution arms. In Canada this financing link is virtually inoperative. A stronger Canadian distribution sector is desperately needed: first, to bring Canadian films to Canadian screens; second, to participate in financing production of those films.

The significance of ownership in the distribution sector is demonstrated by the fact that Canadian-owned distributors have handled between 25 and 40 Canadian features a year during the past five years. Their incentive to distribute Canadian films lies in their ability to obtain world rights to them. By contrast, of 29 Canadian features made in 1984, only one was distributed by an American company based in Canada.

The case of Quebec: Because of its unique linguistic, geographical and cultural situation, Quebec progressed further and earlier than English Canada in developing an indigenous film industry. The needs of the French-language market have meant that Quebec has not been as completely integrated into the Hollywood marketing system. A reasonably healthy domestic distribution system developed to serve the French audience, and those distributors became the first investors in Quebec films.

However, Canada's French-language film industry has fallen on hard times. Rising production costs have made it increasingly difficult to make films for the small Quebec market, where theatre admissions are declining, particularly outside major urban centres. A recent study showed a 19.5 percent decrease in Quebec theatre admissions between 1982 and 1984.[9] Expansion by the majors into the distribution of non-American films in the early 1980s dried up a vital source of supply for Quebec distributors. For exhibitors, the decline in business has been due principally to the popularity of the home video market, in which new English-language films often appear before the dubbed French version becomes available in the local cinema.

The decline of the Quebec industry, coupled with the irritant of lengthy delays before French versions of films appear, led to the passage in 1983 of Bill 109, the new *Quebec Cinema Act.* The Act licenses and regulates distributors of both films and videocassettes. The dubbing provisions of Bill 109 have been enacted, and their effectiveness will be reinforced by the contribution from the new Canadian feature film and dubbing fund, described later. Other regulations, pursuant to the legislation, have been the object of discussion with the American majors, leading to a recent agreement whereby Quebec-based distributors will basically control the rights to distribute in Quebec non-English-language films, leaving to the majors the rights to distribute in Quebec essentially those English films which they distribute in the American market.

Record of government measures for film and video

On the national level, successive governments have concluded that a normal Canadian presence in this art form and industry is desirable. Government efforts began before the World War II, when the National Film Board (NFB) was created. Initially producing films as part of the Canadian war effort, the NFB was given a wider mandate after the war "to interpret Canada to Canadians." The NFB became a pioneer and world leader in both documentary filmmaking and innovative animation. Its films have appeared in 60 different languages and have won over 2,000 international awards. For nearly 50 years the NFB has demonstrated a Canadian capacity for excellence in the medium.

In 1968 the Canadian Film Development Corporation (CFDC) was created to stimulate production by the private sector. The CFDC was equipped with a revolving fund to assist in financing features that contained established levels of Canadian creative and technical content. During its first decade, the CFDC injected $26 million into the industry, chiefly in the form of equity investment. With the resulting increase in production, from only a few features a year to an annual average of more than 20 in the 1970s, a Canadian feature-film industry began to develop in earnest.

The industry received a further financial boost from the extension of the 100 percent capital cost allowance (CCA) to film in 1974. This attracted private investment to Canadian productions by offering a 100 percent tax deduction to investors in certified Canadian films. The result was another leap in the number and budgets of Canadian features, particularly in English. In 1979, at the height of the production boom created by the capital cost allowance, 67 Canadian features were in production with a total value of $180 million.

The boom, however, was followed by a bust. While the tax shelter attracted heavy investment in feature filmmaking, production budgets became grossly inflated, with large fees paid to promoters, directors and popular Hollywood stars. Too many of the films were aimed at the second-echelon American market; they were imitative, frequently disguising their Canadian qualities altogether. Their value as tax shelters prevailed over their potential merit as films; about half never reached the theatres. Few of the "tax-shelter films" became profitable, and investors were scared away. Beginning in 1981, both private investment and the number of Canadian feature films being produced declined sharply.

Whatever the artistic merits of the films produced, and some were remarkably good, a major reason for the failure of these measures to establish a successful Canadian cinema was, as stressed earlier, the Canadian films' lack of access to effective distribution. Government support to the film industry must take into account the problem of getting the films that are being produced into theatres.

In recent years, provincial initiatives have emerged, including a variety of financing and promotional vehicles. Quebec, Ontario, Alberta and Manitoba have established their own feature film funds, while Nova Scotia has announced its intention to do so. Other programs, particularly those developed in British Columbia, Ontario and Quebec, concentrate on attracting foreign production to the province. These "runaway" American shoots on Canadian locations are attracted by a low Canadian dollar and excellent facilities, crews and geographical convenience. They are a welcome contribution to the economy, but an inadequate substitute for a long-term Canadian-based industry making Canadian films.

To try to improve the prospects for the Canadian film industry, more recent Canadian government policy has emphasized new measures to ensure that Canadian film and video productions obtain access to audiences, so as to give greater validity to these federal and provincial production support measures. In 1983, the Canadian Broadcast Program Development Fund was created at Telefilm Canada, the successor to the CFDC. Its focus was on Canadian television, where the distribution bottlenecks are absent since Canadian ownership and program content are both required by regulation.

With a total budget of $250 million over the five years from 1983-1988, the fund is designed to stimulate new Canadian television programming by private producers—but **only if that programming is guaranteed a television audience.** The fund will provide from 33 to 49 percent of the production cost, on condition that the producer has received a commitment of airtime and financial backing from a Canadian television service.

In effect, the fund reoriented production subsidies to a product for which there is a market—Canadian television. As a result of this strategy, a remarkably increased number of Canadian programs—particularly drama—began appearing on Canadian screens in 1984. Canadian networks and stations in both languages, and in both the public and private sector, have participated in the fund, and private film and video production has been greatly expanded.

Not only that, but much of the resulting programming has met with high audience approval. The most celebrated example is the *Anne of Green Gables* mini-series, which was seen by more Canadians than any other non-sports television broadcast; many other independently produced shows have also done extremely well.

In its first two years, the Canadian Broadcast Program Development Fund also funded the production of theatrical films, provided that their producers had a commitment from a television broadcaster. Some features, such as *Joshua Then and Now* and *Les Plouffe,* were made both as films and as mini-series. Ultimately, however, the fund can be fully subscribed for television production alone, where an increased amount of high-quality dramatic programming remains a fundamental national objective.

The non-theatrical film industry has also received considerable attention recently. The non-theatrical sector is responsible for the production of films and videos designed primarily for educational, as well as industrial and commercial audio-visual markets. In May 1986, the Non-Theatrical Film Industry Task Force was established to identify the problems encountered by the non-theatrical film industry and, in its report, released in October 1986, it made a number of recommendations designed to improve the economic and cultural health of the sector.

The main emphasis of the task force's report was on increasing the market for Canadian-produced non-theatrical material, and on ensuring that an equitable balance exists between private and public sources of product. The task force's recommendations, which are currently under discussion with the provincial governments, provide a basis for addressing the particular needs of the sector, in an effort to ensure a steady flow of production and some measure of financial stability.

A positive approach for the future

The Government moved ahead on one of the principal recommendations of its Special Task Force on the Film Industry, which reported in December 1985, by announcing on July 17, 1986 the creation of the Program to Assist Feature Film Production, Distribution and Versioning. The Feature Film Fund, as it is commonly known, consists of $165 million in investment capital, to be administered over the next five years by Telefilm Canada. Most importantly, it will parallel the strategy of Telefilm's Broadcast Fund: access to the new fund by Canadian film producers will be conditional upon a contract with a Canadian distributor. Access to the fund will also carry the expectation that profits from the production will be more closely linked to the market, and a positive and continuing cycle of investment will be created.

However, the intention is very much that this new fund will favor films valued for their cultural significance in Canadian terms. The objective is to enable Canadians to communicate their stories and perceptions with each other. The fund helps Canadian filmmakers to finance projects without having to immerse their values in those of a foreign commercial market. The gamble is that Canadian cinema

will, with enough concentrated initial support, earn a sufficient reputation for quality and appeal to permit Canadian films to succeed elsewhere on their own terms.

Co-productions with other countries will also be encouraged, in order to widen the potential international market. And some $3 million of the Feature Film Fund annually will be reserved for dubbing and subtitling, to ensure that films and television programs in both official languages will be readily accessible throughout the country.

However, the task force report argued persuasively that a production fund by itself will not address the needs of Canadian film and video. As stated earlier, access of Canadian feature films, through Canadian distributors, to adequate theatrical exhibition must be encouraged.

On February 13, 1987 the Minister of Communications announced that the Government would shortly introduce an Act of Parliament to establish an import licence system at the national level that will encourage the emergence and recognition of a Canadian national film market for rights. This licensing system will provide the necessary complement to the investment Canadians have all made and are making in film production and in film dubbing.

The new policy will enable Canadian distributors to have an equitable opportunity to import and distribute films to the Canadian market. It will further the construction of a healthy production, distribution, exhibition cycle for Canadians. Foreign distributors will be able to import for distribution in Canada films which they have produced or for which they have secured all rights. Canadians will be assured of free access to films, whether from Canada or elsewhere.

Taken together, the elements of Canadian film policy are aimed at bringing good Canadian films to our screens, to ensure that some of the revenues of the film industry in Canada accrue to Canadian distributors and producers, and to build an industry equal to our talents, our needs, and our expectations of ourselves. If our techniques are those appropriate to the industry, our goal is profoundly cultural, in the popular, as well as the qualitative sense. These efforts represent an affirmation of Canada's creative place in the world and parallel the new wave of Canadian films. They are set in the context of our own cultural internationalism, as part of the Canadian vocation.

Canadian stars have made recorded music the most widely-traded cultural product abroad. Yet the industry still limps along—with small markets, high unit costs and overwhelming competition from imports. Ottawa wants to reduce those structural deficiencies so the industry can compete on fairer terms.

SOUND RECORDING

7

Recorded music is a vital, daily presence in the lives of many Canadians, especially younger people. Listening to recorded music now ranks third in popularity among leisure-time activities in Canada, after watching television and reading newspapers. Apart from listening to music on radio, and seeing it on television, Canadians spend about $700 million on recordings and audiocassettes every year: a figure that makes us one of the highest per capita consumers of these products in the world.

Recorded music supplies over two thirds of the programming on both AM and FM radio, as well as an increasing segment of television programming in the form of music videos.

Canada also produces a remarkable number of the stars and groups topping the international charts in popular music. These stars have made recorded music the most widely traded Canadian cultural product abroad.

Despite the high sales of Canadian records and tapes, and the abundance of Canadian stars, the Canadian recording industry is not in a healthy financial condition. As in other cultural industries, structural impediments—small Anglophone and Francophone markets, high unit costs, and a retail environment crowded with imported products—inhibit the industry's development.

Between 1978 and 1984, there was a 15 percent decline in the overall number of Canadian-content recordings, and a disturbing 45 percent decline in French-language recordings. The domestic sales of Canadian-content recordings have also dropped—from 17 percent of the market in 1982 to 11 percent in 1984.

Elements of the industry

The sound-recording industry consists of four main functions: **production**, including recording onto a reproducible master, and manufacture into multiple copies; **distribution** to point of sale; **promotion** through advertising, concert touring, radio and television broadcasting, and music videos; and **sale** of the product to consumers through retail outlets or mail order.

Again, success in the recording industry requires substantial outlays of capital. A record producer must be prepared to make a long-term investment of between $250,000 and $1 million in an artist, which includes costs of developing, producing and marketing of the two or three albums usually required before that artist becomes profitable. Undercapitalized companies may enter at the production end of the system, but their products are unlikely to achieve sufficient market penetration to become viable. As a general rule, only one recording in ten breaks even; even fewer produce the substantial profits that make a company self-financing.

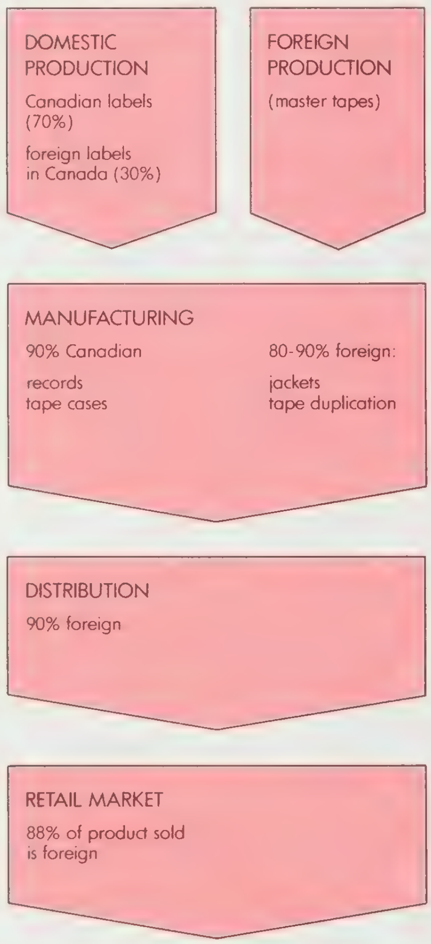
Vertically integrated, multinational companies are best positioned to succeed in the recording industry, by a strategy of spreading risk across the maximum number of markets. In Canada as in other Western countries, the industry is dominated by the eight multinationals that account for 85 percent of the $11 billion in annual worldwide sales. Many of these corporations, such as Columbia, MCA, MGM-United Artists, RCA and Warner Communications, are the same ones that hold dominant positions in the film and television production markets.

These companies benefit enormously from economies of scale. Their control of distribution allows them to manipulate pricing systems in virtually all markets, through their ability to discount prices to a level at which Canadian-owned companies cannot compete. These fundamental risk-reduction strategies of the international recording industry—global reach, economies of scale, control of distribution and price manipulation—result not only in homogenization of taste, but also create serious barriers to entry to the Canadian market by Canadian producers.

The sound-recording industry: A statistical survey

The market: In 1984, Canadian consumers spent $663 million buying 79 million records, audiotapes and compact discs. In 1986, it is estimated that the figure reached $700 million.

7.1 Structure of the Canadian sound recording industry



When music publishing, music videos and concerts by recording artists are included, this industry generates gross revenues of about $1 billion in Canada each year. Indirectly, the industry also supports a further $1 billion of activity in radio, home audio equipment, and sales and rentals of musical instruments.

Substantial auxiliary industries have grown up around the business. Over 90 percent of the recordings sold in this country, for example, are manufactured in Canada, because the customs tariff on imported phonograph records has made it more cost-effective for multinational companies to manufacture records here than to import finished goods.

There are, however, economic pressures on the manufacturing sector, because of competition from new technologies. For several years, sales of audiotapes have been eroding album sales, to the point where tapes now enjoy a larger share of the market. This trend is expected to continue. Compact discs and music videos are also cutting into the traditional records' share of the market. Enthusiasts estimate that compact discs may occupy 50 percent to 60 percent of the total audio market by the end of this decade. Canadian manufacturers are not yet heavily involved in the new technologies and, if sustained, these trends could displace Canadian jobs and trade unless Canada is positioned to move with the times.

Employment: Approximately 15,000 persons are directly employed in producing, manufacturing, marketing and retailing of recordings in Canada. A further 4,000 to 5,000 Canadians work in the related areas of live concerts, merchandising, and musical equipment sales and rentals. In addition, the creative talents of 33,000 Canadian musicians and 20,000 Canadian composers and lyricists depend for their expression, directly or indirectly, on the health of this industry.

Extent of foreign presence: Some 135 companies actively produce recordings in Canada. The vast majority of these are Canadian-owned, but many are extremely small. The Canadian-controlled sector accounted for only 11 percent of total Canadian revenues from recordings in 1984, down from 16 percent in 1981. In contrast, 12 multinationals captured 89 percent of the market.

Of the foreign-controlled companies' earnings, 91 percent came from Canadian-manufactured copies of foreign-produced master tapes. These firms drew $234 million in net revenues from the Canadian market in 1984. Only $30 million was earned by the Canadian-owned sector.

Foreign companies control 90 percent of the crucial wholesale distribution sector. Canada is the most profitable foreign market for the multinational recording companies because of the advantages of lower pricing and spillover publicity gained from proximity to the U.S. market.

Canadian performance: The sector of the recording industry under Canadian control has, in fact, expanded significantly since 1970. This growth has resulted from the maturing of musical talent and artist management in Canada, stimulated in turn by the Canadian-content regulations for radio adopted in 1971. However, it has become questionable

whether the Canadian-controlled sector can continue to expand in view of the advantages enjoyed by foreign-owned competitors.

The difficulties experienced by Canadian companies affect the condition of Canadian popular music.

Smallness of the Canadian market: At the present time, no Canadian recording company is large or diversified enough to compete effectively with the multinationals, either within Canada or abroad. Since the Canadian market is small, it can be most successfully exploited by multinationals concentrating on marketing their parent company's products. Their investment in these products has already been recovered in other markets, so that Canadian distribution costs relatively little. Canadian companies cannot recover all the original costs of production, marketing and distribution in the small Canadian market. To recoup these costs, Canadian companies must not only sell large numbers of recordings in Canada, but also export and license products overseas.

Canadian-owned companies produce the great majority of Canadian-content recordings. In 1984, 60 percent of Canadian-content albums were both produced and released by companies under Canadian control. But those companies produced a further 29 percent of the remaining Canadian product then released by the foreign-controlled sector. Thus, 72 percent of all Canadian-content recordings released in Canada were produced by Canadian-owned firms, though they had only 11 percent of the revenues of the Canadian market.

7.2 Market share of Canadian sound recording companies

The multinationals profit from selling Canadian recordings, but take fewer risks in developing and producing them. In 1984, only 4 percent of the foreign-controlled sector's expenditures were devoted to Canadian recordings, primarily by established stars whose careers were originally launched by Canadian companies.

Problems of Canadian record producers

The most striking anomaly in the Canadian recording industry is that the Canadian sector is suffering at a time when the market is expanding. In 1984, there was an overall increase in record and tape sales of 13 percent; the jump in cassette sales alone was 46 percent.

Yet there is reason to doubt whether most Canadian-controlled companies, and the Canadian artists whose recordings they produce, will be in a position to benefit from this lucrative growth. As new technologies and equipment are introduced, Canadian studios, record-production companies and manufacturers need to re-equip themselves to remain competitive with their counterparts in other countries. But each new development imposes financial burdens that the Canadian sector is frequently unable to overcome. If current trends persist, only a few popular Canadian stars contracted to multinational labels, which can afford the cost of technological change, may reap substantial rewards from the system.

Marketing and promotion problems

In order to recover their costs of producing original Canadian releases, record companies must spend an amount equal to half their production costs on marketing and promotion. It is necessary to achieve as much exposure for the recording artist and product as possible through concert touring, music videos, personal appearances, radio exposure, media advertising and point-of-purchase promotional material.

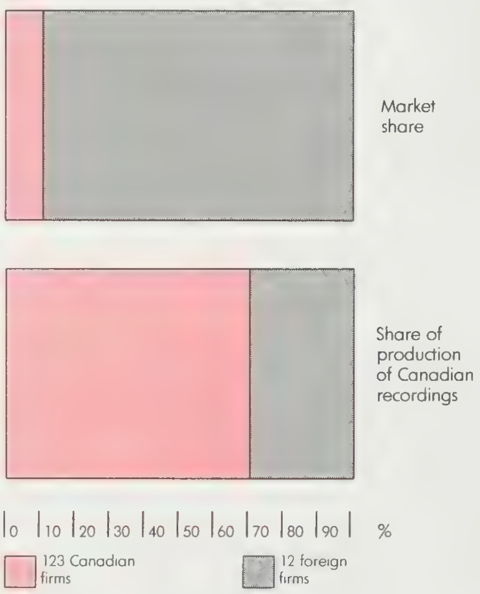
In most cases, export sales are also essential if Canadian-owned companies are to turn a profit on a recording project. Efforts must be made, therefore, to tour the artist internationally and to license Canadian products to recording and music-publishing companies in other countries. The cost of touring, particularly overseas, is often beyond the resources of many companies active in developing new Canadian recording artists.

Financing difficulties: The disadvantages of Canadian producers are compounded by inadequate financing. Like Canadian book publishers, domestic recording producers experience difficulty obtaining investment and loan capital.

Their chief assets—accounts receivable and inventories—are not generally accepted as collateral by lending institutions. This problem makes it difficult for Canadian firms to expand and to weather cash-flow shortages or economic downturns.

In particular, the financing problems of Canadian recording companies leave them poorly positioned to take advantage of opportunities presented by new technologies. For example, record producers must absorb the costs of producing music videos—averaging between $30,000 and $60,000 each—if their products are to remain competitive in the popular music market. Inability to keep pace with these changes because of capital shortages will cause Canadian firms to lose further ground.

7.3 Production of Canadian recordings versus market share, 1984



The distribution bottleneck: The multinationals' need for more efficient and profitable operations has led them to reduce their output and concentrate on their more profitable artists, to whose recordings they hold world rights. Their current strategy seems to be to generate bigger profits from fewer products.

Canadian recordings, whether licensed for distribution from Canadian producers or produced by the multinationals themselves for the Canadian market, are riskier and less profitable than products developed for the American market. Therefore, Canadian recordings, artists and companies are among the primary victims of the cutback in releases.

The interests of Canadian creators and their audiences require a strong Canadian-owned sector, because that sector takes the lion's share of risk in developing Canadian talent. Indeed, once Canadian artists reach the threshold of international stardom through the efforts of Canadian companies, they are often signed to more lucrative contracts by the multinationals.

The impact on radio broadcasting

The recent serious decline in the number of Canadian-content recordings—especially the precipitous 45 percent drop in French-language production since 1978—has created problems for Canada's radio broadcasters, who are finding it difficult to obtain an adequate supply of new releases. In recognition of this problem, some firms in the radio and sound-recording industries have joined forces to fund the production of Canadian recordings.

The Foundation to Assist Canadian Talent on Records (FACTOR) was created in 1982 as a non-profit lending institution to provide access to risk capital. Between 1982 and 1985, the foundation supported 128 recording projects with a budget of $804,000. In April 1985, FACTOR merged with Canadian Talent Library (CTL) to create a larger and more stable production fund with an annual budget of approximately $1 million.

Also in 1985, a similar group known as MUSICACTION was created to fund French-language production, with an initial budget of $175,000. And to support the production of Canadian music videos, VideoFACT was established in 1984 with an initial contribution of $150,000 by the MuchMusic pay-television network.

The case of Quebec

The decline in performance by the Canadian-owned sector in Quebec has been even more rapid than in English Canada. Of all the Canadian-content albums released in 1984, only 18 percent were in the French language, down from 26 percent in 1981. French-language recordings are suffering a decline within a decline: the number of French-language, Canadian-content recordings fell from 156 in 1978 to 86 in 1984.

This decline has created severe difficulties for Quebec radio broadcasters, who must meet Canadian-content and French-language requirements simultaneously. Accordingly, the Canadian Radio-television and Telecommunications Commission (CRTC) recently reduced the French-language requirement from 65 percent to 55 percent for French-language radio stations for a two-year period.

Already coping with the problems of a small domestic market and physical distance from the major foreign market in France, Quebec's indigenous record producers do not benefit greatly from the multinationals' presence. The latter display little interest in producing or distributing Canadian French-language products, and concentrate instead on marketing their English-language inventories to the Quebec market.

Record of government measures

Until 1986, the number of Canadian government measures developed to support the sound-recording industry had been unfortunately small. However, the imposition of the customs duty on imported phonograph records and tapes (now set at 13.7 percent and 11.3 percent respectively), and the Canadian-content regulations for radio and television, two indirect measures mentioned earlier, have had profound implications for the industry.

The content regulations adopted by the CRTC in 1971 require that 30 percent of all music played on AM radio stations between 6 a.m. and midnight be classified as Canadian, according to the CRTC's criteria. For FM stations, the criteria recognize that certain types of Canadian-content music may be less available; hence the regulations vary from 7 percent for classical music stations to 30 percent for pop music stations.

Federal copyright legislation is also important to the industry. The *Copyright Act* defines the performance and publishing rights of musical creators, and the royalty terms for artists, composers and companies for airplay of their recordings. The forthcoming revision of this legislation will have a crucial impact on the well-being of Canadian recording artists and companies by increasing their revenues from the production, sale and performance of recordings and music.

A positive approach for the future

The objective of government policy for sound recording is to provide Canadian products with equitable access to markets. Only this will ensure free, fair and orderly competition within the industry, permitting the Canadian-owned sector to become self-financing to a reasonable degree.

Also, in parallel to government policy for other cultural industries, additional measures are required to encourage Canadian recordings of specialized music that cannot be financed by the market alone.

With the support of government policies and programs, Canadian recording companies can develop into financially and culturally vigorous enterprises. They will achieve this state if assisted to gain access to the substantial revenue flows of the business for reinvestment in Canadian products —financing the more risky elements of the business with revenues from the more stable elements.

This is why in September 1986 the Government announced a Sound Recording Development Program providing $25 million over an initial five-year period. One of the principal objectives of this program is to ensure that the private sector can produce and market, at home and abroad, high-quality Canadian-content sound recordings, music videos and radio programming in both official languages.

The Sound Recording Development Program includes three major components: production support ($18 million); promotion, touring and marketing support ($4.5 million); and business development ($2.5 million). In view of the special problems of the French-language recording industry (smaller domestic market, physical distance from major foreign markets), 40 percent of the funding will go to this sector. Priority for all funding under the program will be given to Canadian artists, record companies, music publishers, managers and other professionals with proven expertise in the industry. The policy aims at encouraging investment by Canadians (including investment in joint ventures with non-Canadians), increasing opportunities for creators and expanding choice for the listening public.

Broadcasting reflects the very heart of the Canadian experience. Yet technology and shifting markets are transforming the broadcasting environment.

What we need to determine is how to make more and better Canadian programming available for Canadian audiences in the new environment.

BROADCASTING

8

No Canadian cultural industry is more central to public consciousness than broadcasting; none captures as much of our leisure time. The average Canadian watches 24 hours of television and listens to 20 hours of radio every week. Virtually all Canadians—97 percent of us—watch television at least once a week, and 95 percent listen at least once a week to the radio. A single showing of a highly popular program on Canadian television can attract over five million viewers.

For these reasons, the Canadian broadcasting system, comprising both public and private elements, has always been recognized as a vital instrument of our cultural expression. Canada's private broadcasting industry, especially television broadcasting, has thrived economically. Through its regulatory instruments, the Government of Canada has been able to foster the development of a healthy Canadian-owned sector delivering both Canadian and foreign programs.

But the ability to adapt to changing circumstances in broadcasting is vital. No cultural industry has undergone more frequent and fundamental change in technology and markets. Pay-television, videocassette player/recorders, broadcasting via satellite and cable systems have utterly transformed the broadcasting environment.

Gone are the days when Canadians tuned only the CBC station. Now, more than 80 percent of Canadians have access to at least eight different Canadian and American television channels. In larger cities, 30 or more signals are available to cable subscribers, including pay and specialty services. The impact of videocassette player/recorders on viewing habits has been equally profound; today more than 40 percent of Canadian homes have VCRs.

This proliferation of channels and services has transformed the television industry by fragmenting audiences. In the private sector, competition is more heated than ever. The changed market, combined with technological challenges, is making the future less easy to chart than a decade ago.

The role of public authorities in the new environment has also become the subject of intense public concern and discussion. The system is much more difficult for the Government to regulate effectively; and from a programming standpoint, the range of viewing alternatives forces the CBC and the provincial networks to re-examine their roles.

These developments are good news for consumers. From their viewpoint, broadcasting is opening up a wealth of choice and opportunity, even if most of the prime-time alternatives tend to resemble each other. The wider opportunities for programming provided by cable permit the broadcasting system to meet the special needs of audiences who were, in one way or another, inadequately served before. The challenge for public policy is to ensure that expanding viewer choice continues to include a reasonable selection of Canadian alternatives, and that the Canadian alternatives themselves are not limited to mass-audience, mainstream programming. Ultimately Canada needs more and better Canadian prime-time programming of different varieties: a real Canadian choice.

Canada's broadcasting system: An overview

Our broadcasting system is a complex array of public and private networks, stations and services. Apart from its cultural and social significance, the system is important in industrial terms. In total, radio and television broadcasting and the cable-television industry earned commercial revenues of $2.3 billion in 1985, and directly employed 36,000 persons. In addition, broadcasters paid millions of dollars to freelance musicians, actors, writers, etc., and indirectly created many jobs in the advertising and program production industries.

The Canadian Broadcasting Corporation: Both financially and culturally, the CBC is the major broadcaster in the country. In size and scope, it is considerably larger than any private-sector Canadian broadcaster. This results from the CBC's wide-ranging mandate as the national public broadcasting service, linking this country together: a mandate placing challenging and costly demands upon the corpora-

tion. In 1986-1987 its parliamentary appropriation is $854.7 million. The total CBC budget for 1986-1987 is $1.1 billion, with the balance made up by advertising (about $240 million) and other revenue sources.

With these funds, the CBC operates two national television networks, one in English and one in French; four national radio networks, two each in English and French; a total of 31 television and 68 radio stations. The CBC raises Canada's profile abroad through its external broadcasting service, Radio-Canada International, which broadcasts in 12 languages. The CBC also provides northern radio and television services in eight dialects for the indigenous peoples of Canada, as well as two satellite-to-cable networks providing coverage of Parliament.

The CBC is a prolific producer as well as a broadcaster of programs—on radio as well as television. Thus, the corporation is a major employer of Canadian creative talent.

Both the size of the CBC's parliamentary appropriation and the need to generate revenue from advertising lead the CBC's television networks to aim for a significant audience share. Amid the plethora of competing television signals originating in both Canada and the United States, the CBC and its affiliated television stations still manage to attract 48 percent of all French-language viewing and 24 percent of all English-language viewing. Furthermore, the CBC's share of English viewing in Canada is about the same as the share obtained by each major U.S. commercial network in the United States, while the share of French-language viewing is almost double. Meanwhile, in an industry where the market is much more fragmented than in television, CBC English-language radio (AM and FM) accounts for about 9 percent of all English-language listening; the Radio-Canada AM and FM networks together account for just over 7 percent of all French-language radio listening. CBC radio provides a vital national forum for current and cultural affairs discussion, whose value to national life and interests goes beyond considerations of audience size.

The CBC has a long and proud history of cultural achievement. Nevertheless, the services it provides are based on a mandate defined 20 years ago, when the CBC was the only broadcasting service available to many Canadians and consequently tried to serve every taste. Indeed, the CBC's future role is one of the central policy issues facing government in the area of culture.

Private broadcasting: The revenues of private radio and television broadcasters are generated largely by advertising. Advertising rates are based on audience size; hence, private broadcasters generally aim to program material that is as widely popular as possible. In contrast, however, the new specialty television services are financed in large part by direct subscriber payments.

This mainstream role of private broadcasting is reinforced by the sector's importance in terms of job creation and economic benefits as the following figures for 1984 indicate:

	Number of stations	*Number of employees*	*Operating revenues*	*Operating expenses*	*Pre-tax profits*
			($ millions)		
Private radio	446	10,025	559	490	24
Private TV	81	7,215	900	676	163
Cable TV	747	6,866	594	366	56

Television: Apart from the privately-owned stations affiliated with the CBC, the private television element in Canadian broadcasting comprises the English-language national private network, CTV; the French-language private network, TVA; Global Television; a regional satellite-to-cable service in Atlantic Canada, the Atlantic Satellite Network; and various independent stations, located mostly in large metropolitan centres. Quatre Saisons, a new private French-language service, began broadcasting to most of Quebec in September 1986.

In general, private television broadcasting has been extremely healthy, with after-tax profits increasing twelvefold from 1971 to 1984. Smaller broadcasters, however, have seen a downturn in their economic prospects in recent years, as markets fragment and competition intensifies.

The contribution of private television broadcasters to Canadian cultural interests is debated almost as much as the CBC's role. The profit motive driving the private sector results in a higher proportion of relatively inexpensive foreign programming, especially in drama, than is shown by the CBC. However, the productive use of Telefilm financing in the last year has resulted in a higher proportion of Canadian drama.

Radio: The hundreds of private radio stations operating in Canada provide a mixture of programming primarily composed of music, supplemented by news, weather and sports. As noted in the chapter on sound recording, radio exposure is a crucial promotional vehicle for records.

Much more than television, radio is a local medium, relying mainly on local advertising revenues. It is also an extremely competitive business. During the period from 1971 to 1984, the number of Canadian radio stations increased from 341 to 446, while total industry profits remained basically static. Although the industry is profitable as a whole, many smaller stations have been losing money in recent years.

Cable television: Cable television is the primary means by which Canadians receive television programs. Cable is available to four out of five Canadian households; three out of five in fact subscribe.

Cable television service is provided by hundreds of companies that are granted monopoly licences to serve specified geographical areas. In addition to delivering a variety of Canadian and American television services, cable companies are required to provide subscribers with a community channel financed essentially through basic subscription revenues. Nearly all of cable's revenues are earned from installation and basic subscription fees supplemented, in recent years, by additional charges for pay-television services.

Discretionary services: Canadian pay-television services were first licensed by the CRTC in 1982. Services now available include English- and French-language movie services, sports, music, and multilingual channels. These are usually offered to cable subscribers in packages, which often include a number of American services. Specialty services now reach 16 percent of cable households for The Sports Network, followed by MuchMusic with 15 percent and the movie channels with 13 percent. Such services collectively account for 2 percent of television viewing in Canada.

Provincial broadcasting: Provincial broadcasting takes the form of "educational" television services provided by four provincially owned and operated television networks: Radio-Québec; TVOntario; Access Alberta (which also operates an educational radio network); and the Knowledge Network in British Columbia. In fact, much of the programming of these services, at least in Ontario and Quebec, is educational chiefly in the sense that it appeals to a wide range of cultural interests and intellectual tastes.

Record of government measures

The Government of Canada has been directly involved with broadcasting since the late 1920s. At the urging of many citizens disturbed over the predominance of American programming on Canadian radio stations, the Government in 1929 appointed the Aird Commission to advise it on the matter. Two principles emerged from the commission's report, which have guided Canadian broadcasting policy ever since:

- that the airwaves are a public resource and should be regulated by the Government on behalf of the Canadian people; and that use of this scarce resource entails obligations in the public interest;
- that a publicly owned broadcaster is necessary, within the broadcasting system, to ensure that broad cultural goals are met and public needs properly served.

Those goals and needs are, of course, a recurring topic of debate.

Government has acted in a number of ways to enhance the broadcasting system's contribution to Canada's cultural expression, the most significant of which was the creation of the publicly owned, national broadcaster in 1936. Others were the requirement for domestic ownership of private broadcasting services, and the establishment in 1958 of the regulatory function through the Board of Broadcast Governors, now replaced by the CRTC—steps that have given Canadians control over their domestic market.

With respect to programming, the most crucial measures are the Canadian-content requirements for radio and television, designed to ensure a strong Canadian presence in broadcasting.

An important measure to strengthen the economic base of Canadian broadcasting was the passage in 1976 of Bill C-58, the amendments to the *Income Tax Act* already discussed in the chapter on periodicals. By disallowing the deduction of expenses for advertising aimed at Canadians and placed in non-Canadian broadcast outlets, this legislation repatriated Canadian advertising revenues from border television stations in the United States.

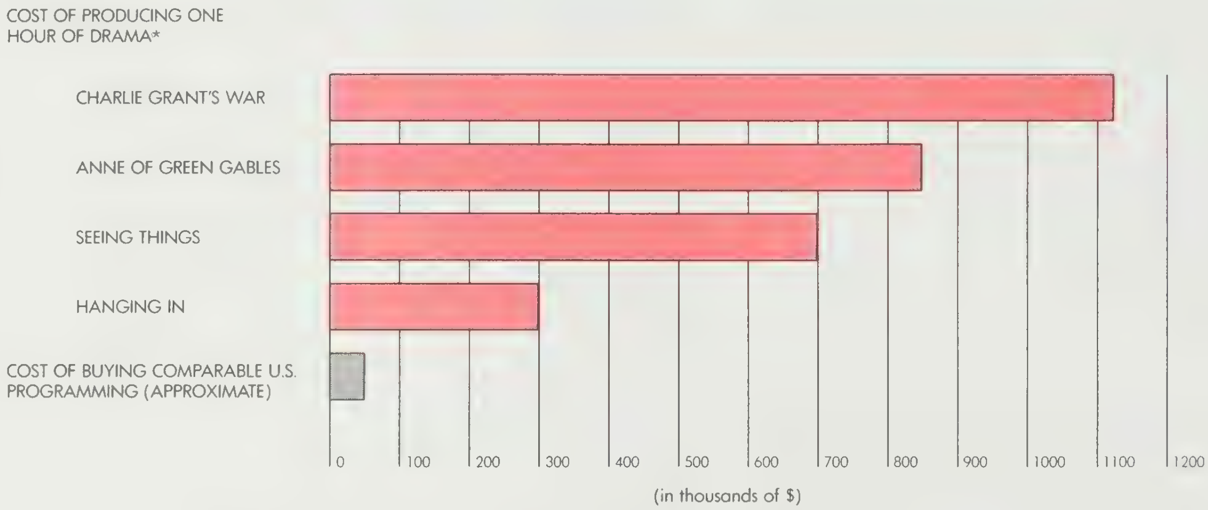
Measures applied to cable television have also been instrumental in strengthening the Canadian broadcasting industry. For example, the Canadian priority carriage regulations give Canadian signals distributed by cable precedence over American signals. The simultaneous substitution regulations require a cable company to substitute the signal from a local Canadian station for an American or distant Canadian broadcaster, when the signals are carrying identical programming. The guidelines concerning the packaging of discretionary services also favor Canadian licensees.

The television programming dilemma

The *Broadcasting Act* states that programming provided by Canadian broadcasters must be of high standard, using predominantly Canadian creative and other resources. But the availability and popularity of inexpensive American television programs have discouraged the production of high-quality Canadian programming, particularly in the general area of drama.

In the fall of 1984, 74 percent of the evening programs shown between 7 and 11 p.m. (including news) on English-language television were of foreign, primarily American, origin; English Canadians spent 76 percent of their viewing

8.1 Buying English television imports versus domestic production, 1985-1986



*U.S. production costs average in excess of US $1 million per hour, and for shows like *Miami Vice*, with commissioned pop music, wardrobes, stunts and effects, the cost often goes to $1.5 and $2 million per hour. Canadian drama must compete with these high-budget U.S. productions.

time watching them. On French-language television, foreign programs represented 44 percent of evening programming, and French Canadians spent about 35 percent of their viewing time watching them.

Drama is the most popular type of television programming, representing about 60 percent of what people watch on English television in the peak evening hours. Often considered to be the most influential genre in purveying cultural values, it is also the most expensive form of programming to produce. Canadian broadcasters have tended to favor importing cheaper foreign drama over producing it here in Canada (the Canadian broadcasting rights to an hour of *Dallas* cost $60,000; an hour of original programming can cost up to $1 million to produce). In consequence, of the viewing time devoted to drama in 1984, English Canadians spent 98 percent watching foreign dramatic programs, and French Canadians 80 percent. Improving the number of Canadian-produced high-quality dramatic productions during prime time is a central strategic objective of national policy for television. But more and better Canadian-made prime-time dramatic programming will cost more money. The success of a strategy with Canadian programming as its objective has to be rooted in sound economics as well as in profound conviction.

As it is now, in a mass-market framework, the economics of program production are closely linked to the economics of selling advertising. Because of broadly based appeal and high production budgets, as well as the benefits of spillover promotion, American programs have traditionally generated higher advertising revenues than Canadian programs. Moreover, initial investment in the production of Canadian programs is a high-risk undertaking because of Canada's small market —and also because of the overwhelming competition from American programs in export markets. Ultimately, Canadian dramatic programs made without government production support would need to sell on the world market in order to break even.

It was as a response to these economic realities that the Canadian Broadcast Program Development Fund was established in 1983 to encourage the production—and broadcast—of certain categories of quality television programs produced by private Canadian producers. To date, the fund, administered by Telefilm Canada, has provided over $150 million to over 400 projects, with total budgets of $500 million.

The fund, along with the licensing of additional Canadian television stations during the 1970s and the emergence of pay-television services, has contributed to a growth surge in the domestic program production industry. Some projects assisted by the fund have won awards, and have been sold in American and other film and television markets. The broadcast fund has clearly demonstrated that, with a little assistance, the Canadian production industry can flourish, producing attractive Canadian programs and competing successfully in the domestic and international marketplaces.

Since the fund commenced operation in 1983, the

Government has modified the eligibility criteria twice. The first change, in April 1985, made it possible for provincial over-the-air television authorities to be eligible broadcasters for the purposes of the fund. At the same time, documentaries were also made an eligible category along with existing categories of variety, children's and drama programming. To encourage totally Canadian productions and the development of series "pilots," the criteria were amended to permit an increase in Telefilm's participation up to 49 percent, and to allow Telefilm to match broadcaster's exhibition licence fees up to a maximum of 49 percent until March 31, 1986. These amendments resulted in increased production activity in the eligible categories, which continued even after the matching licence fee incentive expired in March of 1986.

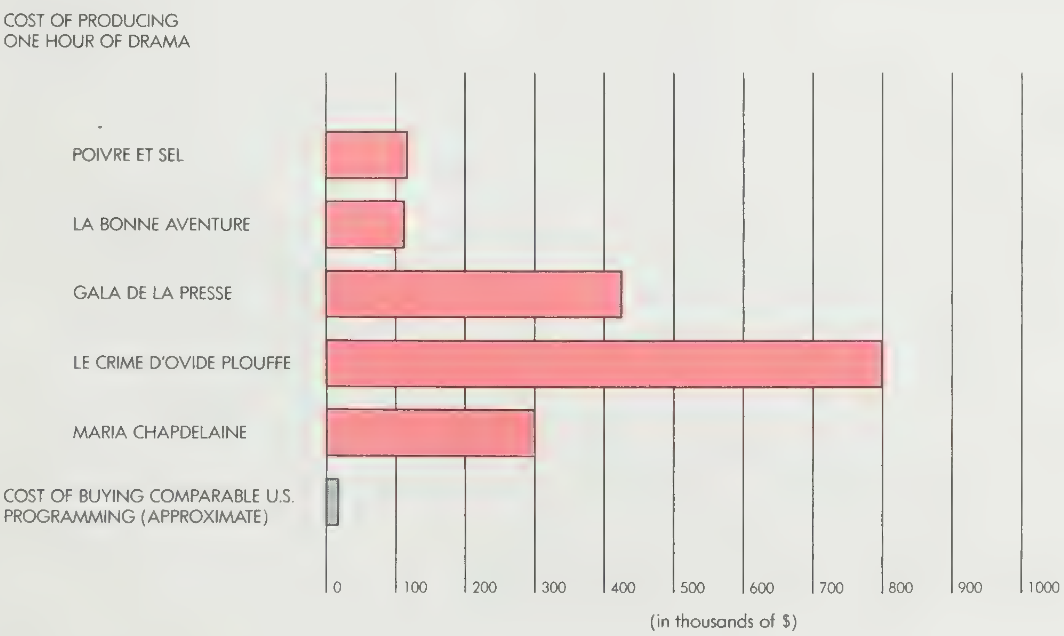
In order to respond to the changing broadcasting environment, the Minister of Communications announced in December 1986, further changes to the broadcast fund to permit discretionary television licensees to issue a broadcast eligibility letter, provided that an over-the-air broadcaster also commits to show the production. In this way, more Canadian productions should be available on both pay television and conventional television, thereby enhancing the opportunities for viewing and the earning potential of the productions. In addition, satellite-to-cable television services licensed by the CRTC for distribution on the basic cable service in major metropolitan areas will be considered as eligible broadcasters for the purposes of the fund.

Both public and private networks in Canada increased their prime-time showing of Canadian drama during 1985. Sceptics were surprised that these programs were so popular with Canadians. In fact, the CBC, which significantly increased its Canadian prime-time drama (especially via independently produced material financed in part by Telefilm), found that it maintained, and in some cases even increased its audience share for these programs.

The goal of increasing high-quality Canadian dramatic programming is a vital cultural target. It is also an expensive one for both public and private broadcasters. The CBC maintains that its current funding level is inadequate for the purpose of even sustaining current levels. A related challenge for the CBC is the appropriate balance between "in-house" and independently produced programs.

If the first need is for more and better mass-audience prime-time TV programming, the second is for TV programming of an alternative kind, programming of a specialized nature such as quality programs for children, and for other age groups, such as older viewers, regional productions, and others. The Task Force on Broadcasting recommended that new satellite-to-cable services in English and French be established to provide these kinds of programming to Canadians. Taken separately, the audience for each may be in the hundreds of thousands, but less than the million or more mass-audience programs aim for. Taken together, the audience for each add up to a sizeable national service.

8.2 Buying French television imports versus domestic production, 1985-1986



The need for more and better Canadian programming is widely accepted. But there is not yet a consensus on the best means to meet it. The country-wide debate, crystallized by the recent Report of the Federal Task Force on Broadcasting, will certainly bring progress in this area.

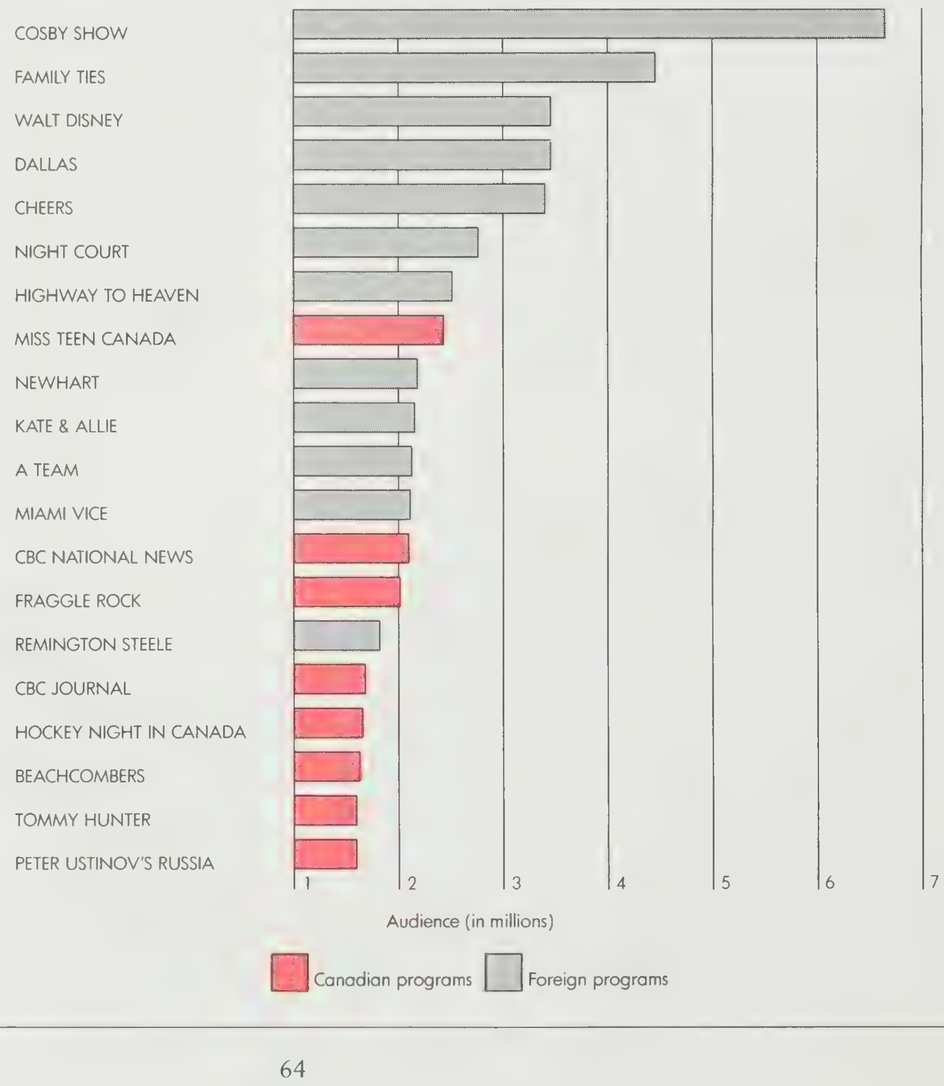
French-language television services

While much of the concern about broadcasting has focussed on the need for more and better Canadian television programming in English, problems confronting French-language broadcasting are equally critical.

There has been a distinct shortage of French-language viewing choice in Canada. This is particularly true of Canadian productions, but there is also a dearth of dubbed versions of popular foreign programs. Francophone viewers seeking increased program choice have been spending nearly one fifth of their viewing time watching English-language broadcasts from Canadian or American stations. Thirty-two percent of their French-language viewing is spent watching foreign programs, mainly dubbed American shows and imports from France. The Program to Assist Feature Film Production, Distribution and Versioning established by the Government will provide the Francophone audience better access to French-language versions of English-language productions. This will lead in turn to increased advertising revenues for Francophone broadcasters, who will then be in a better position to strengthen the quality of programming produced originally in French.

The Francophone market in Canada, basically in the province of Quebec, is small and subject to intense competition between both French- and English-language broadcasters for audiences and advertisers. The public broadcasters face budgetary constraints on their attempts to finance more Canadian programs and to serve outlying regions. The economics of program production are even more difficult

8.3 Top TV shows: English
A typical winter week, 1986.



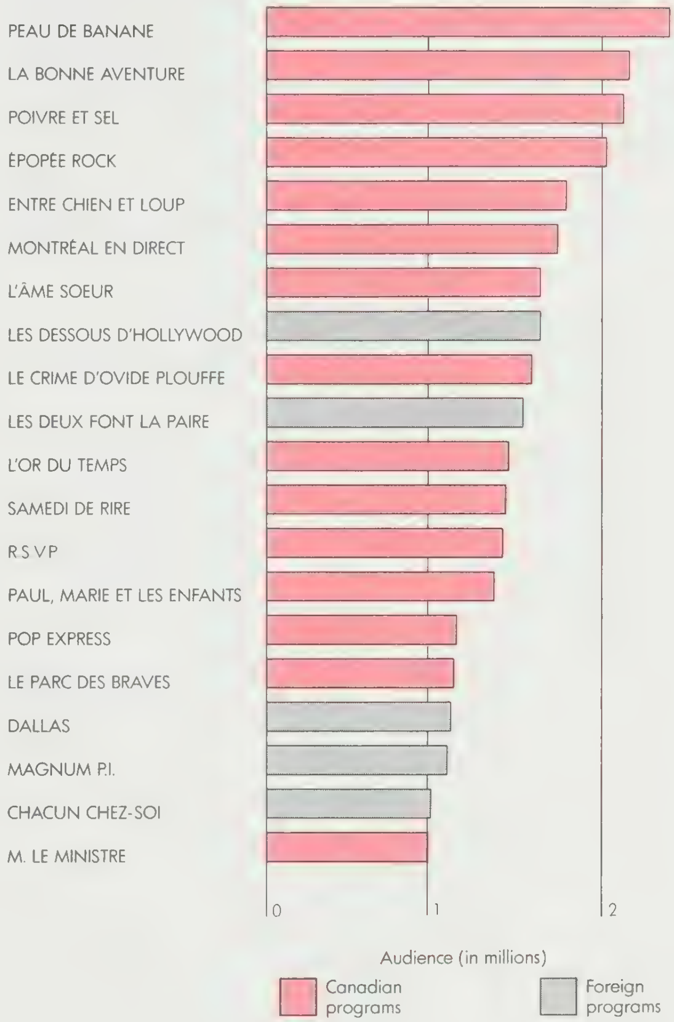
than in English Canada, given the size of the Quebec market and the difficulties of cracking the European market.

In 1985, the federal and Quebec governments established a committee of officials to address the overall problems facing French-language television in Canada. The two governments subsequently endorsed the committee's call for specific solutions to the particular situation of French-language broadcasting. They agreed to work together towards enhancing the availability of French-language viewing opportunities and achieving a broader distribution of Canadian programs in Francophone export markets. One of the key elements is the emergence of a new, international Francophone service, TV5, composed of programming from a number of French-speaking countries, in which Canadian programming now has a prominent role.

Since January 1986, Télé-Métropole; le Réseau de télévision Quatre Saisons; Pathonic; COGECO; and independent producers (Film Sat Inc.), as well as representatives from the public sector (Canadian Broadcasting Corporation, Radio-Québec, National Film Board, TV Ontario), have been members of a Canadian consortium established to participate in TV5, a satellite-to-cable network whose French-language television programming is distributed to various countries in Europe and North Africa. TV5, which also includes participation by France, Switzerland and Belgium, devotes one evening a week to French-Canadian programming on the European/ North African service.

The Department of Communications, in co-operation with the Quebec government, the Government of France and the TV5 consortium, is now studying the feasibility of making the TV5 programming available in Canada, possibly as a component of a new satellite-to-cable service including other types of Canadian programming.

8.4 Top TV shows: French
A typical winter week, 1986



Extension of services

Not all Canadians have been in a position to experience their own culture through broadcasting services. Canada's native populations, official-language minorities and ethnic minorities have not always had access to their own cultural expression, because broadcasting has been, until very recently, a "mass" medium. In addition, some Canadians have lacked access to broadcasting because of hearing, visual or other impairments. Thanks to technological developments, however, broadcasting is now in a better position to offer special services to minority audiences.

The arrival of satellites in the broadcasting environment has made it possible to extend services to virtually all Canadians, no matter where they may live. The licensing of Canadian Satellite Communications (CANCOM), a private company distributing broadcast signals via satellite, has brought a variety of private broadcasting services to hundreds of previously underserved communities. Broadcasting directly from satellite to individual homes will enable many more Canadians to enjoy a wider range of programs.

It is encouraging to note that a policy initiative of the present government has resulted in very positive achievements in the area of extension of services.

Today, most communities of 100 households or more and some communities as small as 50 households have been able to implement local broadcasting distribution systems. These small communities were able to receive better broadcasting services as a result of more flexible measures that

were implemented by the Canadian Radio-television and Telecommunications Commission (CRTC) and the Department of Communications, in accordance with the policy objectives that were announced by the Government in December 1984 concerning the reception and redistribution in smaller communities of broadcasting signals delivered by satellite.

The basic principle of the government's policy remains that Canadians in underserved areas should have the opportunity to access the same range of viewing options available to urban viewers.

A northern broadcasting policy, established by the Government in 1983, is increasing program choice for northern residents by supporting the production of native-language programming.

For linguistic minorities, access to their culture via television is essential. The English-language minority in Quebec has been generally well served by English-language services available in the province. Francophones outside Quebec rely on the CBC, through its French radio and television networks, as their main provider of French-language broadcast programming. However, as a result of the findings of the Caplan-Sauvageau Report, they are now exploring other possibilities in this regard in consultation with public authorities. In addition, since January 1, 1987, TVOntario has been providing to the residents of Ontario a separate French-language educational television service. This service, consisting of 70 hours of French-language programming per week, was made possible through joint funding by the governments of Ontario and Canada.

Ethnic broadcasting is also assuming an increasingly important role within the Canadian broadcasting system; radio and television services in minority languages are increasing across Canada. An important related consideration is the cultural value of participation in mainstream media by Canadians of all ethnic origins.

All of these concerns are vital. Ways need to be found to equalize viewing opportunities for all Canadians and to ensure that the broadcasting system serves the needs of minorities as well as majorities.

The fundamental review of broadcasting policy

Because broadcasting is such a dynamic industry, involving the interplay of new technologies, changing audience demands and new investment, there has been an ongoing need to reassess the situation and reformulate the answers to questions central to public policy: In serving the Canadian interest, what is the proper balance between public and private broadcasting? What is the proper balance between the cultural needs of the country, and the needs and resources of the industry? Where is the optimum point between the recognized need for more Canadian dramatic programming, expensive as it is, and the need to attract and conserve audience loyalty with productions of high value, which are generally the most costly? Is technology taking us toward further fragmentation or not? Is pay-per-view the ultimate route?

How should consumers pay for what they consume? How can the present mainstream system, based on advertising revenues and driven by a need for a market share as wide as possible, be complemented by additional alternatives? The new—and still changing—broadcasting environment forces us to take a fresh look at the relationship between broadcasting and the pursuit of cultural objectives. Has broadcasting's cultural role changed with the times? Should it? How should our cultural objectives for broadcasting be adjusted in light of the new broadcasting reality? What means are most likely to contribute to the achievement of those objectives? For example, in a prime-time, mass-market framework, how do riskier dramas and documentaries get aired? How does our talent get developed? What is the state of the arts on television?

The debate on these issues has always been an intensely public one. Broadcasting policy matters to all Canadians, not just to government, because it affects the quality of our daily lives as citizens. It goes to the heart of our need for information and our freedom of expression, as well as our access to our own cultural experience. The strength of the broadcasting system, therefore, remains a cornerstone of Canada's cultural identity and sovereignty.

In May 1985, as the first step in the fundamental review, the Task Force on Broadcasting was created to develop recommendations for an industrial and cultural strategy to guide the future evolution of the Canadian broadcasting system. The task force was asked to examine the roles, mandates and services of public and private broadcasters and their interrelationships, as well as the balance to be sought among national, regional and local services. The task force was also asked to assess the role of policy instruments such as regulation and public funding, and to examine means of reducing structural impediments to the broadcasting system's contribution to Canadian life.

The Report of the Task Force on Broadcasting was released in September 1986. Its recommendations included proposals for a new *Broadcasting Act,* tighter Canadian content requirements for private broadcasters, a more Canadian CBC and an all-news CBC channel, a recognition

of the specificity of the French-language broadcasting system, an increase in the broadcast fund, and the creation of new national satellite-to-cable public television networks featuring alternative Canadian programs.

An extensive consultative process has now been instituted to determine the shape and modalities of action required in this area of the cultural industries, so central to Canadian interests and the quality of our national life. But the task force is clear that more and better Canadian programming is vital in the national interests. The basic questions begin with the contributions which can and should be made to this goal by the various participants in the industry—the CBC, the private broadcasters, or possibly, potential new services. They lead us through the financial questions ... how, in the end, does the goal of more and better Canadian programming get paid for ... by the Broadcast Fund? By increased budgets for the CBC? By increased cable or other private-sector revenues? Ultimately, what do Canadians want? These are the questions being addressed as this document goes to print.

The report of the task force has been referred to the Parliamentary Committee on Communications and Culture for review. The Minister of Communications addressed the issues in a presentation in February 1987 to the Parliamentary Committee as they began their review.

At that time the Minister indicated that ultimately our concern is with what is available to Canadians in the way of programs ... there are needs which our system is not providing—the first is for more and better prime-time mass audience programming of Canadian origin with Canadian themes and players—the second need is for TV programming of an alternative kind. And also that it is time we recognized the distinctiveness of the French-language broadcasting system and the need for specific policies tailored to its particular realities.

The 1986 Speech from the Throne said that the Government will act to strengthen the Canadian broadcasting system. Fulfilling that commitment is a key priority of the Minister of Communications.

Nations with much greater natural barriers than Canada's protect their cultural industries far more than we do.

Can we learn from their experience?

INTERNATIONAL EXPERIENCE

9

On the basis of the analysis contained in the preceding chapters, it can be predicted that if nothing were done, the position of Canadian cultural industries would erode further. Such an erosion would produce intolerable effects on the cultural well-being of our nation. While other countries are not exactly in our situation, they have had many of the same preoccupations. It is instructive, in developing new policies, to examine the experience of some other countries.

The experience of other countries

The most striking thing about the approaches taken by other Western nations is that even those with greater "natural" barriers, that is countries with much larger domestic markets, far greater geographical compactness and the barrier of a national language—France, West Germany, Italy and Spain, for example—have not hesitated to reinforce those advantages with vigorous programs and policies.

Most Western nations not only support artists and arts organizations, but also support, through a variety of measures, forms of domestic production in the cultural industries. A recent study by the Council of Europe documented some 400 measures in 13 European countries that favor the production, distribution, exhibition or retail sale of domestic products in the publishing, sound-recording, and film and video industries.

The study found that the majority of financial measures are aimed at production. They include:

- production subsidies;
- reimbursable advances against earnings of specific products, especially in the film industry;
- loans or loan guarantees;
- government purchases of cultural products;
- income tax reductions or exemptions for producers or distributors;
- sales tax reductions or exemptions for consumers;
- postal rate reductions;
- special levies or licence fees, particularly on the sales of blank cassette tapes (audio or video), tape players, or cinema tickets, with the proceeds used to finance domestic production in the industry concerned.

The Council of Europe identified the common aim of these measures as the encouragement or maintenance of diversity and quality in cultural products. This aim is pursued through support of domestic producers, whose products provide distinctive alternatives to the products of foreign multinationals. Such measures of government support are considered justified by the high costs of domestic production, inadequate distribution in the home market, and consequent high financial risk, all problems that are intensely familiar to Canadian producers.

Other measures adopted internationally have been designed to reduce or eliminate structural barriers that hinder domestic producers or distributors in their own market. In France, for example, television networks are allowed to purchase programming only from domestically owned distributors; foreign film distributors must obtain ministerial approval to operate in the French market; and foreign investment in the publishing industry is welcome as long as it amounts to no more than 20 percent in a joint venture with French owners. In Spain, film production companies must be 100 percent Spanish-owned, and film distributors must make one Spanish film available for every four foreign films. In Switzerland, only Swiss nationals may distribute feature films.

Most European Economic Community members and British Commonwealth states operate public broadcasting networks analogous to the Canadian Broadcasting Corporation. While trends toward the Canadian model of mixed state and private ownership are averaging in Europe, the American model of private-sector domination of broadcasting is the exception, rather than the norm.

In the film industry, European governments have taken various measures during the past 60 years to protect domestic film production amidst the glut of American productions.

9.1 Government measures in other countries

	AUSTRIA	BELGIUM	DENMARK	FEDERAL REPUBLIC OF GERMANY	FRANCE	ITALY	NORWAY	NETHERLANDS	SWEDEN	SWITZERLAND
Production subsidies and fiscal incentives	●■▲♦	●■▲	●■▲♦	■▲♦	■▲♦	■▲♦	●■▲♦	■▲♦	●■▲♦	●■▲
Government procurement policies	■▲	■▲		▲	■▲	■▲♦	■▲			
Nationalized production firm	▲					●■▲			■	
Postal subsidy	▲♦	♦	♦	♦	♦	♦	♦			
Other distribution subsidies	■	●■	■	■▲	■▲	■	■	■▲	♦	
Promotion and exhibition subsidies	▲	■▲		■	■▲	■			■▲	■▲
Price management					▲					
Import restrictions	●■▲/♦*	■	■	●■	●■	●■	■	●■	■	■
Domestic content or work requirements					●■	●■				
Hiring or immigration regulations	●■▲/♦*	●■▲/♦*	●■▲/♦*	●■▲/♦*				●■▲/♦*	●■▲/♦*	●■▲/♦*
Foreign ownership regulations					●■			■▲/♦*		
Foreign exchange remittance restrictions	■▲/♦*	■▲/♦*	■▲/♦*	●■▲/♦*	●■▲/♦*	●▲/♦*	■▲/♦*	●■▲/♦*	■▲/♦*	●▲/♦*

● Sound recording ■ Film ▲ Book publishing ♦ Periodical publishing
*Note: CBS does not distinguish between Book and Periodical Publishing but groups them together.

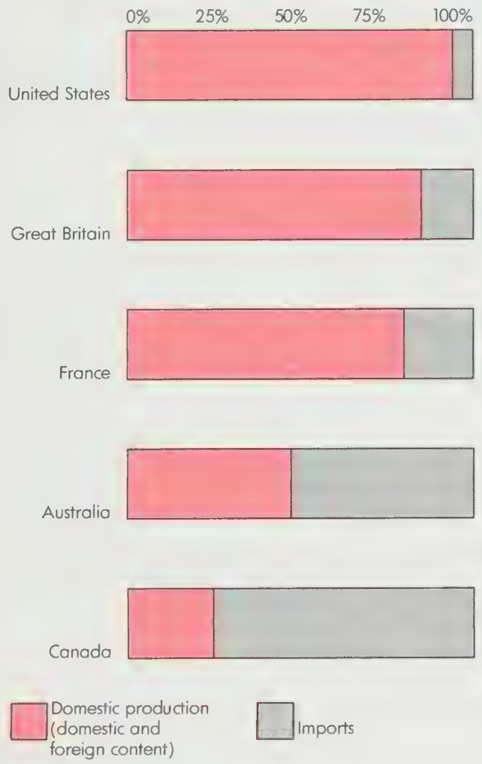
These measures, including ownership and content regulations, have been far more sweeping than anything attempted in Canada.

As early as the mid-1920s, major European nations such as Germany, Britain, France and Italy began limiting film imports, either by restricting their number, tying their distribution to the screening of domestic products, or imposing screen-time quotas for domestic films. As a leading American analyst of the film industry has written: "The objective was not merely to protect or stimulate domestic production, but also to prevent a medium of local artistic and cultural expression from being forced out of existence by the commercial strength of America's film industry."[10]

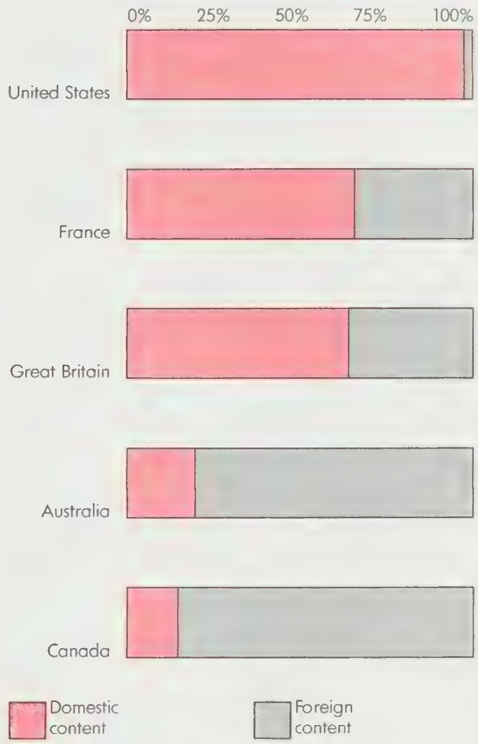
Countries that impose quantitative limits on the showing of foreign films, television or radio programs today include Argentina, Australia, Brazil, the members of European Economic Community, Hong Kong, India, Japan, Mexico and New Zealand. Public assistance for domestic production and/or distribution is also practised in nearly all these countries. Regulations requiring that national products achieve a certain visibility ensure that the public has an opportunity to see the productions it has financed.

The cumulative effects of the type of government actions described above, reinforced in some countries by demographic conditions, have resulted in a much higher market share for domestic cultural products than has ever been attained in Canada.

9.2 Revenue shares—Books, 1983
International comparisons



9.3 Revenue shares—Sound recording, 1983-1984
International comparisons



While the arts are thriving as never before, the industries that sustain them are fragile. The Government of Canada wants to build stronger cultural industries to ensure the healthy development of Canadian culture.

CONCLUSION

The bond that holds Canadians together is our distinct culture—not just in the sense of the arts, but in the larger meaning of our pastimes, habits, images, institutions, perspectives on the world, collective memory and our bilingualism and multiculturalism. Our culture is to a large extent the expression of who we are.

The contribution of creative activity to this bond was not seen so clearly until relatively recently. The death this winter of Margaret Laurence makes it fitting to recall now the words of this gifted and accomplished writer on the reception creators in Canada once had to face.

At one time it was extremely difficult to be a Canadian writer. We still had for many, many years a kind of colonial mentality. A great many people felt that a book written by a Canadian could not possibly be good. It had to come from either New York or the other side of the Atlantic to be any good.[11]

The same was true for French Canadian artists. Times have changed. Sadly, there will be no new works by Margaret Laurence. But we avidly await each new work of other writers— Hébert, Richler, Maillet, Atwood, Blais, Davies, Tremblay, Munro, Gallant, MacLennan, Findley, and a host of newer writers; many of whom reflect today's ethnic mosaic in Canada, and who stimulate and provoke our audience, and the world's, as never before.

Margaret Laurence commented upon a phase of development Canada experienced 30 or 40 years ago, a kind of cultural dependency by no means unique for a nation. Indeed her lament echoed that of many American authors in the nineteenth century. Happily, the situation in Canada has changed, in the visual, audio-visual, musical and performing arts, as well as in literature.

But if culture in Canada is now active and assertive, the instruments for its communication—the cultural industries—remain faced with what seem to be increasingly difficult competitive odds. There is a vital need in Canada to ensure that the burgeoning cultural development in the creative sense be marked by the development of healthy instruments of communication. Without them, creativity could still take place, but fewer Canadians would have access to these creations.

The most evident need is to help join the creator in Canada to his or her audience. The cultural industries are the conduit.

The preceding chapters analyze these industries in the interest of encouraging public analysis, discussion and understanding of the issues involved. The Government of Canada has already moved in the last year to reinforce the productive capability of our film, publishing, and recording industries with newly funded production and development support funds, and with initiatives aimed at improving distribution networks for Canadian cultural goods. In the coming years, in addition to these industries, broadcasting will be high on the agenda, as will the whole issue of the security of the livelihood of creators.

Our objectives are decidedly cultural. However, our analysis and process must often be economic, using the language of markets and the data of commercial competitivity. Sustained cultural achievement today is often a function of financing, particularly in the crucial sectors of mass culture—film, publishing, records and tapes, and broadcasting. As this background paper has described, our cultural industries struggle against competitors with superior financial resources, lower unit costs, and the benefits of transnational spillover advertising, while most of the distribution revenues from the lucrative Canadian market still flow out of Canada to replenish production cycles elsewhere. Canadian cultural industries need to gain normal access to the revenues of their domestic markets. Without such access, too few Canadian film or publishing or recording companies are able to make the sort of long-term investments that produce success, backed by the concerted development and marketing efforts that only a normally functioning market can sustain.

When Canadian cultural products are better represented in the market, the public will determine which of these products will succeed, just as they do in any market. Canadian companies able to produce and distribute successful products will become more self-financing, and hence more independent; more profitable, and hence stronger; better positioned to grow, to innovate, to compete effectively, and thus to make the most of their cultural vocation, in the public interest and in the interest of Canadian artistic expression.

More than 1,600 years ago St. Augustine wrote that "a nation is an association of reasonable beings united in a peaceful sharing of the things they cherish."[12] Uniting those "reasonable beings" is not just a territorial boundary, or a government, but above all, a culture. Through healthy cultural industries, Canadians will have a better opportunity to produce and share those things that contribute to both a vibrant culture and a stronger country.

As emphasized by the Minister of Communications, on February 13, 1987, the Canadian government is resolved and committed to the development of a healthy Canadian culture. The ability of Canadians to express themselves to Canada and to the world is not negotiable.

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Culture is the very essence of our national identity. Nourishing that identity are the cultural industries whose artists are more assured than ever, but whose institutions face long odds against success.

We want to shorten those odds.

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